FINANCIAL TIMES

Britain and the EU
Thinking the unthinkable
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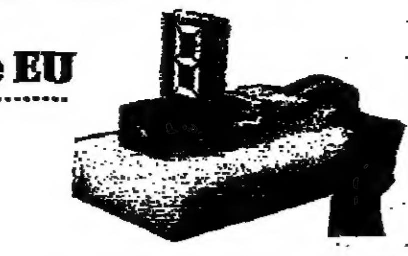

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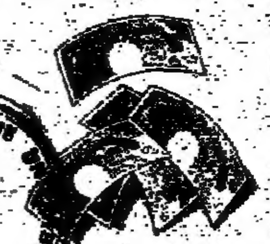

Executive benefits
Wrong to reward downsizing
Peter Drucker, Page 12

World Business Newspaper — TUESDAY JUNE 18 1996

France calls for G7-style group to co-ordinate Emu

France proposed that *governments signing up to* the European single currency should form a club, similar to the Group of Seven of the world's richest industrial nations, to co-ordinate budgetary and economic policies. French finance minister Jean Arthuis said the third and final phase of European economic and monetary union, due to start on January 1 1999, required an "economic policy pole" that would stand alongside the planned European central bank to ensure economic stability. Page 14

N Ireland group warns of spread of IRA campaign

Northern Ireland terrorism threatened to spiral yesterday, with the Ulster Freedom Fighters, the largest Protestant paramilitary group, warning that it had put its operatives on full alert. It said it had come to the "considered view" that the IRA was preparing to follow Saturday's Manchester bombing, in which 200 people were injured, by resuming its campaign of violence in Ulster. Page 14; US considers harder line on Adams, Page 8

Lufthansa shares fall 5%: Shares in German airline Lufthansa fell almost 5 per cent after its warning of unsatisfactory business this year was *seen as signalling a large loss for the six-months* to the end of June. Page 15; Lex, Page 14

EU to start 'open skies' talks: European Union transport ministers gave approval for the *European Commission to launch negotiations* with Washington on a European Union-US "open skies" agreement to liberalise civil aviation. Page 5

Caution on German growth: The Bundesbank *damped hopes of an early resumption of German* economic growth, with a cautious assessment that sighted "rays of hope" but saw no clear indications of a breakthrough. Page 2

Walt Disney *is to halve its film output in what is* seen as a significant step by Hollywood to bring supply, demand and quality of movies into line with market needs. Page 15; Lex, Page 14

In-fighting delays Israeli cabinet decisions: Israeli prime minister-elect Benjamin Netanyahu secured parliamentary majority needed to support his rightwing government but a power struggle within his Likud party prevented him from naming his cabinet. Page 14

Deutsche Babcock, the German engineering group struggling to restructure its loss-making activities, *warned it expected annual losses of up to* DM300m ($197m). Page 17; Lex, Page 14

Nigerian parties need 1m members: Political parties which want to be recognised by *Nigeria's military government need to have more* than 1m members, according to rules to help launch multi-party politics. Page 7

Whitewater leaks anger Clinton: The White *House has reacted furiously to leaks of the Senate* Whitewater committee report that its Republican majority is to make public today. Page 6

Trade surplus falls 60%: Japan's trade surplus fell by 60.5 per cent to Y231.69bn ($2.13bn) in the year to May helped by rising domestic demand for personal computers and semiconductors. Page 4

Disarmament group admits Iraq: Iraq and 22 other countries were formally accepted into the International Conference on Disarmament after a compromise deal to end a three-year stand-off over Baghdad's membership.

Japan leads in aid donations: The US fell to fourth place behind Japan, France and Germany in non-military aid donations in 1995, the OECD said. Japan gave $14.5bn of aid and the US $7.3bn. Britain was sixth with $3.2bn. Page 7

NZ volcano erupts: New Zealand's Mount Ruapehu volcano erupted spectacularly (below), sending steam and ash miles into the sky above the North Island. No one was hurt, but aviation authorities declared a danger zone around the area.

STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	5,642.81	(-6.64)
NASDAQ Composite	1,208.84	(-4.34)
Europe and Far East		
CAC40	2,113.64	(+1.26)
DAX	2,548.12	(-2.71)
FT-SE 100	3,761.5	(+7.9)
Nikkei	22,245.35	(-44.01)

US LUNCHTIME RATES

Federal Funds	$5\frac{1}{2}$%
3-mth Treas Bills: Yld	5.194%
Long Bond	$96\frac{3}{4}$
Yield	7.084%

OTHER RATES

UK: 3-mo Interbank	$5\frac{11}{16}$%	($5\frac{5}{8}$%)
UK: 10 yr Gilt	$95\frac{5}{8}$	($95\frac{3}{4}$)
France: 10 yr OAT	104.36	(104.64)
Germany: 10 yr Bund	97.17	(97.15)
Japan: 10 yr JGB	98.5735	([illegible])

NORTH SEA OIL (Argus)

Brent Dated	$18.79	(17.81)

GOLD

New York Comex		
(Aug)	$387.3	(387.1)
London:		
close	$386.20	(384.15)

DOLLAR

New York lunchtime		
£	1.5455	
DM	1.5160	
FFr	5.1470	
SFr	1.2485	
Y	108.85	
London:		
£	1.5453	(1.537)
DM	1.5177	(1.5229)
FFr	5.1484	(5.168)
SFr	1.2486	(1.2509)
Y	108.845	(108.725)

STERLING

DM	2.3453	(2.3406)
Tokyo close:	Y 108.95	

Albania	LEK 220	Germany	DM4.00	Lithuania	Lts 15.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR12
Bahrain	Din1.250	Hong Kong	HK$20	Malta	Lm0.65	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft230	Morocco	MDh16	Slovak Rp	Sk65
Cyprus	C£1.20	Iceland	IKr230	Neth	Fl 4.75	S. Africa	R12.00
Czech Rp	Kc60	India	Rs75	Nigeria	Naira90	Spain	Pta250
Denmark	DKr18	Israel	Shk7.90	Norway	NKr20.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3200	Oman	OR1.50	Switz	SFr3.70
Estonia	EKr 22	Japan	Y500	Pakistan	Rs40	Syria	S£65.00
Finland	FM15.50	Jordan	JD1.50	Poland	Zl5.50	Tunisia	Din1.750
France	FFr11.50	Kuwait	Fils650	Portugal (mainland)	Esc240	Turkey	L80,000
		Lebanon	LL3,000			UAE	Dh12.00

Bank of Japan opens probe into record $1.8bn loss ■ Copper closes unchanged

Sumitomo shares fall 16.5%

By William Dawkins and Emiko Terazono in Tokyo and Clay Harris in London

Sumitomo Corporation lost about a sixth of its stock market value yesterday as the Bank of Japan launched an investigation into the company's record $1.8bn loss on unauthorised copper dealing.

Copper closed unchanged at $1,980 a tonne on the London Metal Exchange *after earlier falling* in Asian markets to between $1,800 and $1,840, its lowest level since February 1994.

The London Clearing House said it would repay about $300m to LME member firms as a result of an increase in initial margin – the deposit required to make a trade – *from today.*

Sumitomo's shares fell the daily limit of 16.5 per cent in Tokyo, closing Y200 lower at Y1,010. Mining shares and those of other Japanese trading companies involved in copper trading also fell, but by only a fraction of the decline at Sumitomo.

The central bank is in contact with financial institutions doing business with Sumitomo and with foreign monetary authorities, an official said.

He believed there was no chance of credit risk spreading to financial institutions linked to the group, including its main bank, Sumitomo Bank.

Sumitomo will this morning face investment institutions in Tokyo in an attempt to repair the damage to its credibility. It is not expected to divulge any new financial information.

'Wild ride' awaited .... Page 7
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Moody's became the second credit rating agency – after Standard and Poor's on Friday – to downgrade Sumitomo's debt. Mr Shinji Okabe, vice-president of Moody's Japan, said he would re-examine trading companies' risk management systems although he was confident that existing ratings were sound.

Metal dealers in Tokyo voiced disbelief at Sumitomo's claim that the trader concerned, Mr Yasuo Hamanaka, was the only one to know about the unauthorised trades.

Dealers at two other trading companies said that trades of that size – up to Y2,000bn per year according to Sumitomo – could only have taken place with the help of Mr Hamanaka's superiors and with outside companies.

The London Metal Exchange warned Sumitomo twice, in 1991 and 1993, that Mr Hamanaka was carrying out fictitious transactions, but internal company inquiries failed to detect them, according to the Nihon Keizai Shimbun economic daily.

Sumitomo is regulated by the Ministry of International Trade and Industry. The Bank of Japan also has responsibility to watch for any secondary losses to financial institutions. A Miti official said there was no evidence that Japanese law had been infringed.

The Sumitomo trades are the subject of two investigations in the UK – a criminal inquiry by the Serious Fraud Office and the City of London police and a regulatory probe co-ordinated by the Securities and Investment Board, the country's chief financial watchdog – in co-operation with Japanese authorities and the US Commodity Futures Trading Commission.

Sumitomo was not regulated in the UK, being neither a member of the LME nor a firm authorised by the Securities and Futures Authority, both of which report to the SIB.

Half of all UK dealings in copper derivatives involve non-traded contracts outside the LME, and are not subject to direct regulation.

Israeli PM-elect Benjamin Netanyahu (left) and maverick rightwing politician David Levy in talks as the Likud leader attempted to finalise details of his cabinet. Report, Page 14; Sweeping reforms, Page 7 *Picture AP*

EU spells out deal to end UK beef ban action

By Lionel Barber in Rome and George Parker in London

Britain faced mounting pressure yesterday to abandon its policy of non-co-operation in Europe and accept a face-saving deal to end the beef crisis in time for the European Union summit in Florence on Friday.

At a pre-summit meeting in Rome, EU foreign ministers and the European Commission spelled out stark terms for the lifting of the worldwide ban on British beef exports imposed because of fears of BSE, or mad cow disease.

The terms – expected to be set out in a European Commission paper today – offer no quarter to British demands for an early lifting on the embargo of British beef to non-EU countries.

In a further blow to Mr John Major, UK prime minister, France called for a heavier cull of cattle suspected of carrying BSE, beyond the 80,000 proposed by the British government and approved by its House of Commons.

Mr Malcolm Rifkind, UK foreign secretary, appearing after a three-hour bargaining session over beef, looked visibly downbeat when assessing the prospects for a deal in Florence.

Downing Street said last night it would look at any proposal to increase the extent of the cull "dispassionately", but warned that Britain would only agree if it was justified by scientific advice.

One week after being mauled by his European colleagues in Luxembourg, Mr Rifkind again faced angry calls for Britain to scrap its policy of blocking EU business.

Mr Jacques Santer, EC president, said there was no question of a "political fix" or a specific timetable to end the EU ban on British beef exports. The issue had to be settled on the basis of scientific facts and rigorous controls to eradicate BSE in Britain.

UK ministers are sceptical about the scientific objectivity of EU veterinary officials. But as Mr *Rifkind indicated, the Commission's* emphasis on science could offer a way out of the crisis. Britain's argument all along has been that EU governments

Continued on Page 14

Late deal helps US and China avert trade war

By Tony Walker in Beijing and Jurek Martin in Washington

The US and China yesterday reached a last-minute agreement on curbing the abuse of intellectual property rights, *averting* threatened "tit-for-tat" trade sanctions on billions of dollars worth of goods.

Under the agreement, hammered out over months of difficult negotiations, Beijing will strengthen enforcement against piracy and open the way for co-production deals with US record companies, film studios and computer software producers.

US President Bill Clinton hailed the pact as "good for American jobs and American businesses" and industry leaders welcomed the breakthrough.

US negotiators made improved market access for US producers of information and entertainment products a key element of the agreement. They had also *insisted on specific and verifiable* measures to combat widespread counterfeiting of compact and laser discs, and CD-Roms.

Washington said it would impose punitive tariffs on $2bn worth of imports from China if an understanding was not reached by yesterday on implementation of a February 1995 agreement to curb piracy. China threatened counter-sanctions.

Ms Charlene Barshefsky, the acting US trade representative, who met President Jiang Zemin after concluding the negotiations, said the deal was "evidence of a desire to ensure that the bilateral relationship is, and remains, mutually beneficial".

However, she also accused Xinhua, China's official news agency, of "massive violation" of intellectual property rights in its attempt to regulate the distribution of economic information by western news agencies.

The latest negotiations were prompted by US objections that China was not enforcing an accord reached early last year to *crack down on copyright piracy.*

Among the main points of yesterday's agreement were:

● China would "for the first

Continued on Page 14
Best of difficult task, Page 5

Yeltsin and presidential rival woo defeated poll candidates

By Chrystia Freeland and John Thornhill in Moscow

Russian president Boris Yeltsin *yesterday kicked off the second* stage of his country's election campaign by attempting to enlist the support of some of the defeated presidential candidates in his fight to keep the Communists out of the Kremlin.

Mr Yeltsin, who polled 34.8 per cent of the vote in Sunday's ballot, faces *a second round run-off* against Mr Gennady Zyuganov, the Communist leader who won 32.1 per cent. Yesterday, Mr Yeltsin met Mr Alexander Lebed, the former army general who has become Russia's most courted politician after his third place finish.

*Kremlin aides said the two pol*iticians discussed "ways of possible co-operation" and senior presidential allies strongly hinted that Mr Lebed would be offered a leading post in government.

But Mr Lebed, who was supported by 14.7 per cent of voters, refused to comment on the talks and is due to meet Mr Zyuganov later this week.

Mr Zyuganov urged the retired officer to join his camp and pre*dicted that no matter* what political moves Mr Lebed made over the next few days, many of his voters would swing behind the Communists. "Whatever happens, most of Lebed's votes will go to the national-patriotic bloc," said Mr Zyuganov, who campaigned on a strongly nationalist *platform. "This is inevitable as* they voted for Lebed's ideology. By spirit and character they are very close to us."

Both leading candidates also appear keen to woo Mr Grigory Yavlinsky, the leader of the liberal Yabloko grouping who came fourth with 7.4 per cent.

Western governments seemed relieved by the results.

US President Bill Clinton said: "This is a very significant thing for Russia to have this election. The Russian people are to be complimented and the Russian leadership is to be complimented for supporting the constitution and the elective process."

Russia's nascent financial markets reacted warmly to Mr Yeltsin's first-round victory and *yields on government bonds fell* from their recent yearly highs.

Mr Christopher Granville, head of research at the Moscow-based United City Bank, said: "Local brokers marked up share prices very strongly this morning but the western demand failed to materialise and the market came *off a bit later in the day. Inves*tors are unlikely to stampede into the market on a slim two-point advantage."

Mr Yeltsin appears anxious to maximise voter turnout and made a bid to shift the date for the run-off to Wednesday, July 3. The Kremlin is eager to change *the date because it fears the* usual weekend exodus of wealthy Russians to their summer dachas could help the Communists.

Second round under way, Page 2
And so to Lebed, Page 12
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هكذا من الاصل

Russia's second round already under way

John Thornhill finds pointers to election's next stage in the results of the first

In his youth Mr Boris Yeltsin played a dangerous game which he claims taught him an invaluable lesson in boldness of purpose and fleetness of foot.

As lumberjacks floated felled tree-trunks down a nearby river, Mr Yeltsin and his more reckless friends would cross the stream by leaping from log to log. If you hesitated too long a log would spin over and toss you into the water, Mr Yeltsin recalled in his memoirs. The secret was to keep moving and never fear the consequences of a badly-executed step.

Casting aside his years, Mr Yeltsin seems to have recovered much of that former agility and audacity in conducting his re-election campaign, visiting 24 cities in less than four months.

Even before the final results of the first round of voting had been published, Mr Yeltsin had already moved to open talks with his defeated rivals to build support for the second round contest against Mr Gennady Zyuganov, the Communist party challenger, to be held next month.

Despite winning the biggest share of the votes in the first round, Mr Yeltsin has a battle on his hands to secure his ultimate victory and must reach out to build a broader anti-communist coalition.

As had been widely forecast, Mr Yeltsin picked up strong support in the wealthy industrial and oil regions and the big cities which have most benefited from his economic reforms.

In prosperous Moscow he won more than 60 per cent of the vote at the same time as his political ally Mr Yuri Luzhkov was overwhelmingly re-elected mayor.

Mr Grigory Yavlinsky, the liberal leader of the Yabloko faction, may have syphoned off the votes of young urban professionals and the intelligentsia, who have been appalled by Mr Yeltsin's growing authoritarianism and the conduct of the Chechen war. However, in the final crunch, most of these voters can be expected to back Mr Yeltsin next month.

The real damage was done by Mr Zyuganov who trounced Mr Yeltsin in the poorer rural regions and smaller towns in central Russia and the south, while Mr Alexander Lebed, the populist former army commander, picked up strong support in demoralised military districts and the far east.

Mr Yeltsin's aides were yesterday hinting that they would change the style of their campaigning for the second round and directly target these bastions of opposition. Mr Yeltsin's campaign staff are doubtless already setting up photo-opportunities in the muckier parts of the Russian hinterland.

The president himself seems inclined to adopt a confrontational approach running on an even more aggressively anti-communist platform.

"Now after the first round, the situation is different. The choice is simpler: either back to revolutions and upheavals, or forward to stability and prosperity," he said, immediately after the first results became known.

But the danger of running such a hostile campaign is that Mr Yeltsin may alienate many moderate supporters of Mr Yavlinsky and Mr Lebed, who have been urging the creation of a new social consensus rather than stirring up old hostilities.

If he starts throwing too much mud, Mr Yeltsin may also lose the advantage of using the status of his office to remain above the political fray and deter the electorate from voting at all.

For his part, Mr Zyuganov must clearly try to extend his appeal into the centre ground of Russian politics. He can rely on a rockbed of support but is desperate to reach out to the one-third of the electorate that voted for the eight losing candidates in the first round of the election.

Like Mr Yeltsin, the Communists will initially target Mr Yavlinsky's and Mr Lebed's voters. But Mr Zyuganov may also receive some help from another unlikely quarter: Mr Vladimir Zhirinovsky, the ultra-nationalist who did poorly in the polls with under 6 per cent of the vote.

Mr Zhirinovsky appeared to lose many of his supporters to Mr Lebed and remains fiercely opposed to the Communists. But many of Mr Zhirinovsky's supporters could nevertheless register an anti-Yeltsin vote.

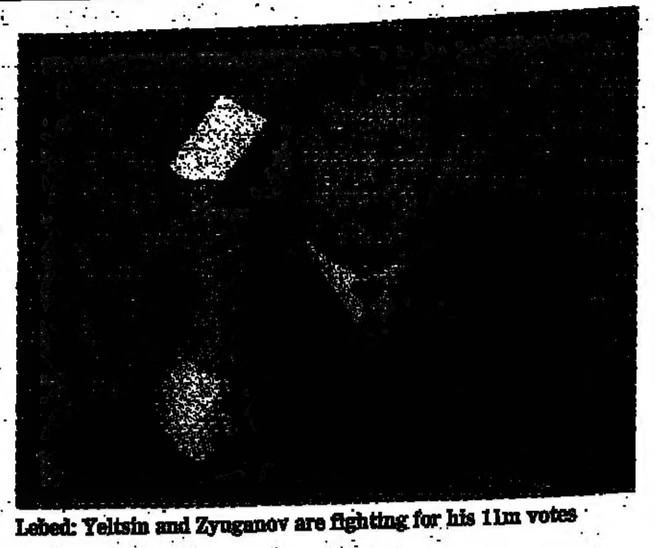
Of the other five candidates, including Mr Mikhail Gorbachev, the last Soviet president, none received more than 1 per cent of the vote. Despite requiring 1m signatures to register as a candidate, none of these candidates won that number of votes and their endorsements may be important symbolically but can be of little use electorally.

Mr Yeltsin's aides believe the key to victory is in mobilising a higher turnout than the 70 per cent that voted on Sunday and can be relied upon to offer the electorate more "bread and circuses" as inducements. Mr Yeltsin has already appeared at a series of rock concerts to enthuse young voters and has been pressing home the message: "Vote or Lose". Many more such events are bound to be staged in the fickle regions.

Mr Sergei Filatov, the head of Mr Yeltsin's re-election committee said: "If we had got maximum voter turnout on June 16, the gap between Yeltsin and Communist party leader Gennady Zyuganov would have been bigger."

As part of the plan to increase the turnout, Mr Yeltsin's team are pressing for the second round to be held on Wednesday July 3 which will be declared a national holiday. They fear that many pro-Yeltsin voters are out at their country dachas at the weekends when elections are traditionally held and would not make it back to the cities in time to vote.

Mr Yeltsin's aides also seem relieved that one other potential distraction will be out of the way next month. They blamed the Russian football team's disappointing 3-0 loss to Germany in the European championship in England for "demoralising" potential voters. The coach's criticisms of his players lack of "moral fibre" could, some might say, have been equally applied to millions of Russian voters who were slumped in front of their television sets instead of heading out to vote.



Lebed: Yeltsin and Zyuganov are fighting for his 11m votes

General Lebed: kingmaker in the making?

By Chrystia Freeland in Moscow

According to his adoring troops in the 14th army, Mr Alexander Lebed, a surprise third in Sunday's presidential poll, has "the physique of Arnold Schwarzenegger and the brains of Albert Einstein."

Less worshipful observers might demur, but no one can argue that over the next three weeks the gravelly-voiced former general will need the constitution of an ox and the mind of a chess grand-master as he faces choices which could determine the fate of the entire nation.

It is a position that Mr Lebed has no qualms about occupying. Untroubled by false modesty or self-doubt he is the sort of man who can answer a question about his strong showing in the polls with the one-liner he used on Russian television last night: "It is because I am a born winner."

The interviewer politely observed that this was not quite true – with some 15 per cent of the vote, Mr Lebed came in a distant third. Unfazed, he said this was just a start and that eventually he expects to win the ultimate prize. Independent observers are less confident that one day he will rule the Kremlin, but many believe that the man who less than a year ago was driven from his obscure command in the north-east corner of Moldova over a disagreement with the ministry of defence, has today become the kingmaker of Russian politics.

With just a few percentage points separating Russian President Boris Yeltsin and Mr Gennady Zyuganov, the communist candidate, in Sunday's ballot, as they prepare for a run-off sometime over the next few weeks, both leaders are hungrily eyeing the 11m voters who backed Mr Lebed.

Mr Zyuganov personally appealed to him to to join his team yesterday and senior communists say Mr Lebed could demand almost any position in a communist administration.

But the president has made the most aggressive effort to woo the new darling of the country's nationalists. Within hours after polls closed on Sunday, Mr Yeltsin's aides were predicting an alliance with Mr Lebed and yesterday afternoon the former general was in the Kremlin being offered a seductive range of posts within the Yeltsin administration, including a newly invented position which would give Mr Lebed broad authority over the crucial power ministries: defence, the ministry of the interior, the re-vamped successors to the KGB.

Mr Lebed seems tempted. But if he does take the bait it is far from certain that his supporters will automatically follow him into the the president's fold.

Some Yeltsin strategists say Mr Lebed and his voters are natural allies for the government, but the reality is much less clear-cut. As his buoyant showing in the Far East, a traditional stronghold for Mr Vladimir Zhirinovsky, Russia's ultra-nationalist, suggests, many of Mr Lebed's supporters appear to be the relatively poor and uneducated voters who in past elections have expressed their inchoate rage with the current world order by backing a politician who speaks fondly of Hitler and thinks Russian troops should conquer India.

Although Mr Lebed's election programme is surprisingly liberal on the question of market reform – he describes privatisation, price liberalisation and financial stabilisation as "crucial and unavoidable" – he has not been shy of playing to the darker instincts of his angry constituency.

Even Mr Yeltsin, who forced Mr Lebed into a humiliating resignation from his job last summer, has come in for a fair share of abuse during the heat of the campaign.

"All of today's democrats are yesterday's communists, and high ranking ones at that," Mr Lebed said earlier this spring. "This is more true of Yeltsin than anyone else."

If he does a deal with the Kremlin Mr Lebed's less committed supporters may decide he is no better than the slippery establishment politicians he has attacked on the hustings. In their disgust, these voters may decide not to go to the polls at all. Or they might back the only force whose attack on the current regime has been unrelenting: Mr Gennady Zyuganov and the communist party.

Liberal economist's political influence may end up proving greater out of the race than in it

Yavlinsky could yet play leading role

By John Thornhill

Mr Grigory Yavlinsky, the tousle-haired economist who flew the flag of Russian liberalism in Sunday's presidential elections, played a marginal role in the contest, garnering little more than 7 per cent of the vote, concentrated in Moscow and St Petersburg. Yet, ironically, his influence on Russian politics could be far greater now he is out of the race than when he was in it.

As both President Boris Yeltsin and his communist challenger, Mr Gennady Zyuganov, scrap for votes in the second round of the elections, the 44-year-old leader of the liberal Yabloko movement could yet end up with a leading role in either administration and boost his longer-term presidential ambitions.

Mr Yavlinsky ran a naive, poorly organised campaign; Mr Yeltsin's aides were able to paint his exploratory talks with the president about forming a possible electoral alliance as an attempt to parlay political support for a post in a new Yeltsin administration.

Starved of funds by his former backers who switched to Mr Yeltsin's cause, and denied access to the media which had once favoured him, Mr Yavlinsky's campaign shrivelled as the election neared, despite his seemingly attractive programme of moderate political and economic reform.

"The election is far from being equal, free and democratic," Mr Yavlinsky complained when voting on Sunday. "It is reminiscent of the elections under Leonid Brezhnev [the former Soviet leader]."

Despite his criticisms of the president, Mr Yavlinsky seems ready to talk to Mr Yeltsin again before the second round in the hope of tempering his more extreme policies. "If Yeltsin wins the elections unconditionally, he will think he is a god," Mr Yavlinsky said earlier this month.

Mr Yavlinsky has argued he cannot simply "give" his votes to either candidate; they must be earned. "I told Mr Yeltsin I cannot bring you voters like shrimps on an aeroplane. You have to do something that I can explain to my supporters."

The liberal leader has made a string of suggestions. He has urged the president to take further steps to resolve the conflict in Chechnya, ditch his hawkish aides, and soften the edges of his economic programme by strengthening the social welfare net.

Mr Yavlinsky's endorsement of Mr Yeltsin in return for such concessions would certainly help reconcile many Yabloko supporters to the president's cause. Arguably, the big danger for Mr Yeltsin is not so much that Mr Yavlinsky's supporters would vote for Mr Zyuganov as that they would not vote at all.

The liberal Yabloko parliamentary faction will hold a congress on Saturday to determine its position, though a vociferous minority may argue for supporting Mr Zyuganov. The Communist party leader is desperate to win Mr Yavlinsky's support, knowing it would win him credibility among sceptical moderate voters and foreign governments.

From a selfish political perspective, Mr Yavlinsky may even privately prefer a Zyuganov victory. Mr Yavlinsky would probably emerge as the only credible leader of the democratic opposition in parliament and could position himself for a stronger run at the presidency in four years' time. But such thinking is hardly likely to appeal to many of his supporters, no matter how loyal they may be.

If Mr Yavlinsky can play each leading candidate's fears off against the other's, he could still secure some advantage for the constituency he represents. If not, the views of the non-Communist democratic opposition may be marginalised for the rest of the decade.

Paris and Bonn in drive for flexibility ahead of EU expansion

By Lionel Barber in Rome

A Franco-German led drive for more flexible political integration to prepare for future enlargement of the European Union is gaining ground.

The shift in sentiment is reflected in a paper drawn up by the Italian presidency for heads of government to consider at this week's European summit in Florence.

EU foreign ministers, meeting in Rome yesterday, considered the paper, which sums up the first three months' negotiations in the Maastricht treaty review conference (IGC).

The Italian document confirms the slow start to the IGC, but identifies the principles and conditions for allowing an advance guard of member states to co-operate more closely without being held back by dissenters:

- Flexible co-operation should not apply to the single market or core areas such as competition policy.
- The presumption of common action should prevail, leaving enhanced co-operation as a recourse of last resort.
- It is unclear whether a general flexibility clause should be created or whether specific treaty language should apply to areas such as foreign policy and home affairs.

France, Germany, and the Benelux countries are pushing the advance guard principle, but several countries, notably Spain, have reservations in case they are left behind by a "hard core" inside the EU.

Britain has marginalised itself in this area of the IGC debate because of its refusal to consider any extension of majority voting or dilution of the principle of unanimity, some diplomats said yesterday.

Mr Michel Barnier, deputy French foreign minister and an IGC negotiator, said France would call for a new impetus in the talks. "We have not had a bad start because we have not started at all." Most observers believe the IGC will not be wrapped up until the UK general election which could be 11 months away.

Apart from the question of national vetoes and flexibility, the chief issues are how to make the fledgling common foreign and security policy more effective as well as co-operation on immigration and home affairs.

Support is also growing for the EU to suspend rights of member states who commit serious or persistent breaches of human rights or violate democratic principles. This is linked to the future admission of the new democracies of central and eastern Europe, some of whose track records since 1989 are less than glittering.

Mr Malcolm Rifkind, UK foreign secretary, spoke out strongly yesterday against calls to incorporate socio-economic rights in a new definition of EU citizenship such as the right to equal opportunities, health protection, and right to work. It was more important for governments to focus on competitiveness, he said.

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Bundesbank takes cautious line on Germany's growth prospects

By Andrew Fisher in Frankfurt

The Bundesbank yesterday damped hopes of an early resumption of German economic growth, with a cautious assessment that sighted "rays of hope" but no clear indications of a breakthrough.

While encouraged by improving demand for exports, the German central bank said in its monthly report that private consumption remained disappointing. Industrial investment was an especially weak point in the economic picture, with low capacity utilisation and high costs and taxes combining with business uncertainty to hold back spending.

Manufacturing industry seemed to have passed the worst, with production in the first four months of this year showing a slight rise compared with the last quarter of 1995 on a seasonally and calendar-adjusted basis.

But it was too early to say definitely whether the whole economy was through its low point.

Gross domestic product fell in real terms by 0.5 per cent in the first quarter over the last quarter of 1995, with the cold winter holding back output, especially in the construction sector.

Despite its more positive view of exports, the Bundesbank said the recovery in foreign business was still not complete. German companies still needed to pay urgent attention to improving their competitiveness.

They had been helped by their own restructuring and cost-cutting, as well as by the correction of the "excessive D-Mark revaluation" that took place early in 1995, and moderate wage rises in some sectors this year.

But part of the export improvement had been achieved by German companies making more use of cheaper foreign parts in their products.

It did not quantify this, but said the share of imported components in export products had increased markedly. Thus higher exports were not fully benefiting the German economy.

The increase in foreign business could also partly reflect orders that companies then passed over to lower-cost foreign subsidiaries.

The Bundesbank did not expect the hoped-for economic recovery to have much impact on unemployment which it again described as the German economy's most pressing problem.

It called on the government to cut taxes and social security levies, and implement decisively its budget-saving and job-creation package.

Only long-term structural reforms could improve employment.

At the end of May, seasonally adjusted unemployment was 3.93m, a rise of 355,000 on the same time last year.

This was 10.3 per cent of the total German workforce, and 15.5 per cent in east Germany.

Mixed reception for new Austria economy minister

By Eric Frey in Vienna

Mr Johann Farnleitner, the surprise choice for the post of Austria's economics minister, yesterday won a mixed reception from business leaders and economists who feared he would slow the deregulation process started by his predecessor. Mr Johannes Ditz resigned last week partly out of frustration over resistance to his programme.

As deputy secretary general at the Federal Economic Chamber, the largest business association in Austria, Mr Farnleitner helped the group put up a stiff fight against Mr Ditz's plans to ease the burdensome licensing procedures for business start-ups and relax shop closing hours, currently the strictest in Europe.

Mr Farnleitner seemed to confirm these worries when he said yesterday that his main goals would be to boost exports and improve competitiveness, not to speed up business deregulation.

A lawyer by training Mr Farnleitner, 57, spent his whole professional career as an expert in the economic chamber. He is known as a bland but competent expert on European Union issues and an experienced negotiator with the powerful trade unions.

His appointment on Sunday night by vice-chancellor Mr Wolfgang Schüssel, the chairman of the People's Party, came as a surprise to political observers who had expected a better known candidate for the most important economic post held by the junior partner in the coalition government.

Mr Schüssel is said to have asked a number of prominent political and business leaders, including Mr Günter Stummvoll, Mr Farnleitner's boss at the economic chamber.

The switch from Mr Ditz to Mr Farnleitner is expected to weaken the People's Party influence in their ten-year-old coalition with the Social Democrats. There are doubts whether Mr Farnleitner will be able to match Mr Ditz, who had influenced fiscal and economic policy making for more than a decade and was the main architect of the austerity package designed to bring the budget deficit in line with the Maastricht criteria for Emu.

NEWS: EUROPE

EUROPEAN NEWS DIGEST

Sicilian snub for Berlusconi

The Forza Italia movement of Mr Silvio Berlusconi suffered a big loss of support in Sunday's poll to elect a new regional government for Sicily.

Only two months after Italy's general election, Forza Italia's share of the vote among the 4.4m Sicilian electorate was halved to 17 per cent. Mr Gianfranco Micciche, the regional organiser of Forza Italia, resigned after the result was announced.

Support switched to the two moderate parties in Mr Berlusconi's right-wing alliance, formed from part of the now defunct Christian Democrats – the Christian Democrat Union (CDU) and the Christian Democratic centre (CCD).

The switch in voter allegiance did not affect the overall result: the Berlusconi-led rightwing alliance gained a clear majority, with the four main parties in the alliance winning more than 50 per cent of the vote and 49 of the 90 seats in the parliament.

The parties stood separately to take advantage of Sicily's electoral laws using proportional representation. None of the 51 groups representing autonomy platforms for Sicily did well, the best being Noi Siciliani (We Sicilians) with 1.5 per cent. Support for the reformist anti-Mafia party, La Rete (The Network), which had established a strong presence in Sicily since the last regional vote in 1991, was more than halved to 3.5 per cent. *Robert Graham, Rome*

VW recalls 950,000 vehicles

Volkswagen yesterday announced the recall of 950,000 of its cars to test for potential faults in the engine cooling system.

The German carmaker said the recalls affected Golf and Jetta models built between 1983 and 1989 with a 1.3 litre engine, and Passat and four-cylinder Corrado models built in 1988 and 1989. About 500,000 of the cars affected are in Germany itself.

Volkswagen last year announced a recall of about 1.2m Golf and Jetta models in Germany and another 700,000 cars in western Europe, also because of suspected faults in the cooling and heating systems.

The costs are paid for by Volkswagen, which has built up special reserves to cover recalls. The company yesterday gave no precise cost details, but indicated that the costs could run to about DM100 ($65) per car or slightly less, which would suggest a total of up to DM95m. The stock market reacted to the news, by marking VW shares down DM8.25, or 1.5 per cent, to DM553.50. *Wolfgang Munchau, Frankfurt*

Nastase fails in mayoral race

Mr Ilie Nastase, the former tennis star, has failed to become Mayor of Bucharest, his home town, winning just 43 per cent of the vote in a two-way run-off, according to final results for the capital released yesterday.

Mr Victor Ciorbea, a former trade union leader and the candidate of the Democratic Convention (CDR), Romania's main opposition group, extended his 10-point first-round lead over Mr Nastase, winning 57 per cent of the vote in Sunday's poll.

The CDR also beat the governing Party of Social Democracy (PDSR), which Mr Nastase represented, in five out of six of the run-offs for district mayors in the capital, where 11 per cent of the population lives. Partial results from the rest of the country suggested the governing party had also been defeated by the CDR and other opposition parties in most of the few cities or large towns. *Virginia Marsh, Bucharest*

Swiss money laundering moves

The Swiss cabinet yesterday approved a draft law to combat money laundering, including a controversial provision requiring financial managers to report suspicious transactions. The legislation, if adopted by parliament, would force all money managers to keep a paper trail on accounts and allow assets to be frozen pending an investigation. A key change under the legislation would be in the law on reporting of suspicious accounts.

Switzerland in 1994 curtailed the country's banking secrecy for the first time with a law allowing banks to report suspicious customers to police. But the new law would go further by requiring bankers, asset managers and lawyers to report money coming from the drugs trade or other crimes.

The draft bill would also put legal responsibility on any person or company whose business is managing or looking after money. This provision includes investment funds, life assurance companies and asset managers who are presently outside the range of money laundering laws. *Reuter, Berne*

Ruling party wins Albania re-run

Albania's ruling Democratic party has won a partial re-run of the earlier disputed general election, officials said yesterday. The fresh round of voting in 17 electoral districts confirmed a landslide victory for the government. However, most opposition parties, including the main opposition Socialist party, boycotted the polling, which was organised after the first ballot was plagued by irregularities.

The country's electoral commission announced yesterday the ruling party had won in all the 17 districts contested on Sunday. International observers and the European Union backed opposition claims of manipulation and had urged a partial re-run. But it is still unclear whether Sunday's vote will satisfy their request. *Marianne Sullivan, Tirana*

Brussels seat belt rules for buses

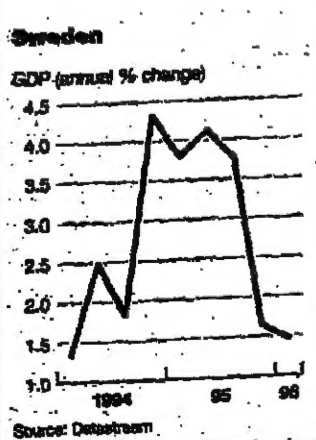
The European Commission adopted rules yesterday requiring manufacturers to fit all new coaches and minibuses with seat belts for all passengers.

The rules, which will be phased in by the year 2001, require three-point belts for minibuses and two-point belts and energy-absorbing seats for large coaches, the Commission said.

The legislation – which amends existing EU rules on seat belts – implements a deal hammered out by EU government officials in April in the wake of a series of fatal crashes. It also requires manufacturers to fix labels on cars warning that rear-facing baby chairs should not be used in seats protected by air bags. *Reuter, Brussels*

ECONOMIC WATCH

Sweden's GDP up 1.4 per cent



Source: Datastream

Sweden's gross domestic product rose 1.4 per cent in the first quarter of 1996 on a year earlier, Sweden's central statistical bureau reported. In the first quarter of 1996 private consumption of goods increased by 0.9 per cent on the first quarter of 1995, due mainly to an upturn in consumption of food and energy. Gross fixed capital formation rose by 11.2 per cent, with industries increasing their capital formation by 14.9 per cent on a year earlier. The upturn in GDP is also explained by a growth of net exports by SKr6bn ($898m) at current prices, it said. Production in industry increased by 1.9 per cent and total hours worked rose by 1.5 per cent, the bureau said. *AFX, Stockholm*

■ Finland's industrial output in April was up 0.9 per cent from a year earlier, adjusted for the number of working days. Industrial output in the first four months was up 0.5 per cent from a year earlier.

■ Spanish exports, especially to non-EU countries, picked up in April with an increase of more than 17 per cent.

Cyprus moves up international agenda

President Clerides has been encouraged by a recent flurry of world interest. **Edward Mortimer** reports

Yesterday the White House, tomorrow No 10 Downing Street, later this week the European Union summit in Florence.

President Glafcos Clerides of Cyprus is covering all bases in his effort to move the Cyprus problem back up the international agenda – encouraged by a recent flurry of interest, as the US, United Nations, the EU presidency, and the UK (Cyprus's former colonial master and a guarantor of its independence) have all appointed special representatives to deal with the issue.

Mr Clerides is the fourth Greek Cypriot leader to wrestle with the problem since 1974, when Turkish troops landed on the island and created an ethnically homogeneous Turkish zone in the north. Even before that, as negotiator for the island's first president, Archbishop Makarios, he had many meetings with his Turkish Cypriot opposite number, Mr Rauf Denktash, now president of the self-proclaimed "Turkish Republic of Northern Cyprus".

But Mr Clerides believes, as do many international observers, that a new turning point is approaching.

Last year the EU agreed to open membership negotiations with Cyprus six months after the end of the current intergovernmental conference – probably in early 1998.

EU member states have made it clear, as has the Commission, that they would much prefer to negotiate with a reunited Cyprus. But they all recognise Mr Clerides's government, elected by the Greek Cypriot majority, as the only legitimate one on the island; and they hope the fear of negotiations going ahead with a purely Greek Cypriot government will encourage the Turks to make a serious effort to settle the conflict within the next 18 months.

So far there is little sign of that happening. Mr Boutros Boutros Ghali, the UN secretary general, has had talks with both Mr Denktash and Mr Clerides within the last two weeks, but has not found enough common ground to justify bringing them together for a new round of negotiations.

Mr Clerides himself says he expects no immediate results from his present trip, because there is no stable government in Turkey.

"Even if I credit Denktash with willingness to be flexible," he asks rhetorically, "without a Turkish government to cover him, is he likely to make any concessions? My philosophy is that Ankara has to decide, not Denktash – though Denktash can be a nuisance if they try to force him to go further than he wants."

President Clerides: believes new turning point is approaching

In 1979, both sides agreed on the main lines of a solution: the island should remain "bi-zonal" and bi-communal, with a federal constitution based on the political equality of the two communities. But they remain divided on powers and composition of central government, the size and shape of the two zones, the right of Greek Cypriots to return to homes in the Turkish zone, and security arrangements.

Mr Denktash insists Turkey retain the right to intervene if Turkish Cypriot rights are not respected, while Mr Clerides prefers a multinational force stationed on the island, with a UN mandate to intervene if either side reneges on the agreement.

Mr Denktash now blames the EU for accepting a membership application from a government he says is illegitimate, because it is composed exclusively of Greek Cypriots. He has rejected Mr Clerides's offer to include Turkish Cypriots in the negotiating team, and threatens to hold a referendum in the north on the proposition that Cyprus should not be allowed to join the EU before Turkey – which will be well into the next century, if at all.

Turkey for its part has threatened to annex the north outright if the EU admits the south – a threat most diplomats discount, given the high financial and political costs Turkey would incur.

The EU meanwhile, through its ambassador on the island, Mr Gilles Anouil, has mounted a campaign to convince Turkish Cypriots of the benefits they would reap from EU membership, both in economic terms and by having their rights and political status entrenched in EU law.

This cuts no ice with Mr Denktash but many Turkish Cypriots seem interested. They blame Turkey for allowing their economy to stagnate and driving down their living standards by importing cheap labour from the mainland.

Many have left, and some of those who remain say they are now outnumbered by Anatolian settlers. Mr Ozker Ozgür, a former minister in Mr Denktash's government, says he fears that if Cyprus joins the EU without a political settlement there will soon be no indigenous Turkish Cypriots left. Once entitled to EU citizenship, he says, most would seize the chance to emigrate to western Europe.

Twenty per cent of northern Cyprus is set aside for military purposes, and there is one soldier for every four civilians. The UN, which maintains a peacekeeping force in the narrow strip separating the two zones, believes both these figures are world records.

In the south Mr Clerides is trying to redress the balance by spending $2m a day on arms. US President Bill Clinton is likely to have told him, at their meeting in Washington yesterday, that this policy only raises tension and the risk that Turkey would take pre-emptive action there in the event of a clash with Greece.

Mr Clerides will counter by reminding Mr Clinton of his promise to Greek American voters four years ago he would do something to help solve the Cyprus problem. Mr Clinton will hardly need reminding, since his energies are already focused on getting himself re-elected in November.

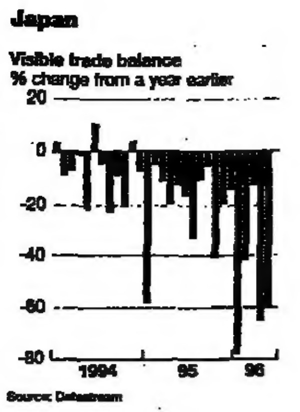
Japanese trade surplus falls for 18th month

By William Dawkins in Tokyo

Rising domestic demand for personal computers and semiconductors was a factor in a 60.5 per cent decline in Japan's trade surplus in the year to May, the 18th consecutive month of decline.

The trade gap reached Y231.69bn ($2.13bn), slightly higher than the market was expecting, according to preliminary data from the finance ministry yesterday.

Officials expect the surplus to remain on a declining trend, though many private sector economists in Tokyo believe that the rate of decline will soon ease, as the weakness of the yen starts to improve the price competitiveness of Japanese manufactured goods in overseas markets. The dollar was yesterday trading in Tokyo at around Y109, or about 22 per cent below its level a year ago.



Exports rose a vigorous 14.2 per cent to Y3,405.9bn in May, but that was less than half the reported pace of import growth, 32.6 per cent to Y3,174bn.

The underlying pace of import growth is slightly slower than that, because the headline figure is distorted by the 30 per cent rise in oil prices over the period. Up to 40 per cent of Japanese imports – crude and refined products – are linked to movements in oil prices.

Even so, Japan's recovering economy showed robust demand for finished goods, nearly 60 per cent of the total, last month.

Imports of office equipment – mainly computers – rose by almost three quarters, while imports of electronic devices increased by 48 per cent.

Unusually, the surplus declined with all three of Japan's main trading regions. The trade gaps with the US and with the European Union both fell by nearly 40 per cent in May. The gap with other Asian nations fell by 24.4 per cent, the second month in a row, to Y336.05bn. It was more than double Japan's Y167.7bn surplus with the US.

Reuter adds: Japanese police raided the offices of one of the failed mortgage companies at the centre of a bad debt scandal yesterday on suspicion of making unlawful loans.

The raid on the offices of the Nippon Housing Loan Company was the first such action against one of the mortgage companies, or *jusen*, which are expected to be liquidated through government legislation.

An official at Nippon Housing declined to comment. Police officials also refuse to comment on the reports.

The reported raid comes as key financial bills, including one needed to implement a controversial scheme to wind up the failed mortgage companies, were likely to become law today.

There has been a public anger over the scheme because it calls for the use of Y685bn ($6.28bn) of taxpayers' money to help clear up the mess left by over zealous lending by private financial enterprises in the 1980s "bubble" era of inflated asset prices.

Nippon Housing is the biggest lender among the seven *jusen*, with outstanding loans of more than Y2,000bn ($18.3bn), of which 53 per cent are said to be irrecoverable.

S Korea sees slower growth in production

By John Burton in Seoul

Production growth in most of South Korea's main industries will slow during the second half of 1996 because of weakening export demand, a government research institute warned yesterday.

The gloomy report by the Korea Institute for Industrial Economics and Trade (Kiet) underscored that the economy appears to be headed for slower growth during at least the next 12 months.

Although most analysts predict that gross domestic product will increase by 7 per cent this year, the growth rate could fall to 6 per cent or lower in 1997 as industries cut back on investments.

The Kiet, however, noted there would be strong growth for computers, while telecom equipment makers would benefit from a recent expansion of domestic telecom services. Machinery exports are also expected to climb by 23 per cent during the second half of 1996 due to increased orders from China, Indonesia and Malaysia.

But production will slow in a number of key areas. A sharp fall in prices for semiconductors, South Korea's single biggest export product, will mean total production of electronic parts will increase by 10 per cent in 1996 against 50 per cent last year.

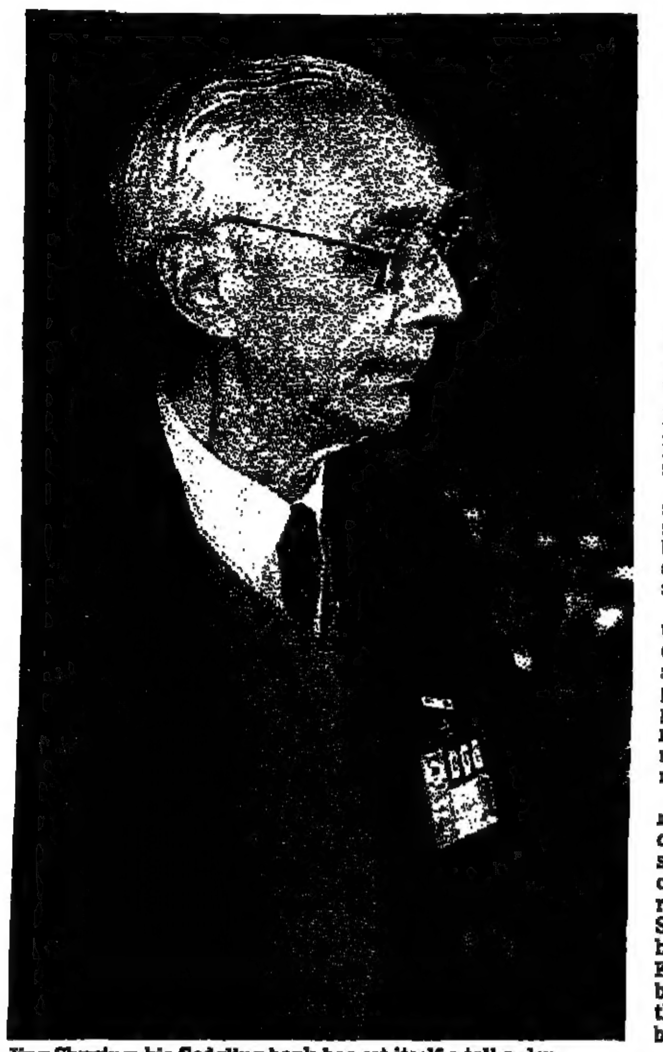
Steel and petrochemicals are also suffering from falling international prices.

The output of the car, shipbuilding, consumer electronics, steel, petrochemicals, electronic components and textile industries will increase by less than 10 per cent compared with mainly double-digit growth last year.

Car production will be affected by a saturated domestic market and a slowdown in export growth to 11 per cent against 41.5 per cent a year ago.

This reflects the growing competitiveness of Japanese car companies due to a weaker yen. South Korean shipbuilders are also losing orders to Japanese rivals for the same reason.

Consumer electronics are suffering from sluggish demand both at home and abroad and are threatened with growing cheaper imports from south-east Asia.



Jing Shuping: his fledgling bank has set itself a tall order

Nimble newcomer appears on China's banking scene

Its aim is to be among the country's biggest in 10 years' time

A pushy newcomer has appeared on China's banking scene. "Our goal is to be among the biggest in 10 years' time," says Mr Jing Shuping, chairman of the China Minsheng Banking Corporation, the country's first post-revolutionary private-sector bank.

That is a tall order. With 130 staff and three offices, the fledgling institution is dwarfed by state-sector giants, with staff in the millions and thousands of branches.

But Mr Jing is well versed in upheavals to the established order. The fact he finds himself at the head of a bank owned 80 per cent by private-sector companies underlines the potential now opening to China's business sector as a result of economic reform.

"Thirty years ago, I would never have foreseen such changes," says Mr Jing, who started out in chemicals and cigarettes before China's 1949 revolution. Unlike many of his Shanghai fellow businessmen, he resisted a move to Hong Kong. "I went to look with my brother for a few weeks but we thought we would be eaten by bigger fish," he says.

The result was a harrowing period during the Cultural Revolution. Dubbed a "reactionary capitalist", he spent two years labouring on a remote farm in central China living in quarters he built himself. His fortunes and his Shanghai home restored by the economic reforms launched in the late 1970s, he is now labelled an entrepreneur.

The Minsheng Banking Corporation (the People's Livelihood Bank) is designed for kindred spirits. "Financial services rendered by existing state-owned banks to the non-state sector are limited," says the bank's launch document. In a move to help remedy the problem, Mr Zhu Rhongji, China's reformist vice-premier for economic affairs, gave Minsheng the green light. "He described it as an experiment, to get the ball rolling," says Mr Jing.

That was in June last year. The doors opened for business in January, with capital of Yn1.4bn ($168m) and 59 shareholders drawn from more than 200 applicants. The biggest include Yitong, a Guangdong-based trading and industrial concern, which has just under 9 per cent of the bank's shares.

Foreign investors, including the Asian Development Bank, have expressed interest. But this would breach regulations allowing Minsheng to conduct business in renminbi, the domestic currency.

So far, the bank has extended loans of about Yn600m, mainly in the form of working capital to manufacturing companies. The aim is achieve loans of about Yn3bn by the end of the year, with total assets of more than Yn6bn. Customers include staff from the foreign ministry, situated down the road from Minsheng's central Beijing office.

Part of the planned growth will come from new branches. Minsheng has received approval to open in three more cities this year: Shanghai, Guangzhou and Chengdu. Other provinces are pressing for the bank's presence.

However, staff skilled in analysing credit are a rare commodity, while vested interests in the industry obstruct the emergence of rivals. Citic Industrial Bank, the banking arm of the Citic investment group, which Mr Jing also helped create, cites delays in opening new branches.

Minsheng is smaller than Citic, which might help explain the swift authorisation for new outlets. But it has some strong cards to play in its expansion. The new bank is not saddled with bad loans to state enterprises, a burden which poses serious problems for the state-sector banks. Nor is it obliged to provide housing or medical care for its staff.

As a nimble newcomer, the bank can exploit business areas which open up with economic reform and development. Mortgages for China's rising ranks of home-buyers are one area under consideration. On the international front, Minsheng has received a licence for foreign exchange transactions and is negotiating correspondent banking agreements with foreign giants such as Deutsche Bank and Chase Manhattan.

If Minsheng plays its cards right, and if Mr Jing is correct that China's economic reforms cannot be reversed, then his bank, one day, just might rank among them.

John Ridding, Peter Montagnon and Tony Walker

Kim seeks to speed reform and state sell-offs

By John Burton

Frustrated by the slow pace of privatisation, South Korean President Kim Young-sam yesterday urged that the reform of state-run industry be accelerated.

Mr Kim has ordered that a new plan for the privatisation and managerial reform of state companies be completed by the end of August to prepare the enterprises for increased international competition.

President Kim: frustrated by the slow pace of reform

The Korean state sector includes the country's leading steel, telecom, power generation, gas and tobacco companies, most of which are highly profitable due to their near-monopoly status.

The government announced an extensive $7bn privatisation programme in 1993, but its implementation has fallen behind schedule due to a weak stock market and concerns that the country's main industrial groups, or *chaebol*, would strengthen their economic dominance by taking over the state enterprises.

The telecoms sector, for example, is being opened to foreign competition in 1998, while sales of foreign cigarettes are beginning to challenge the market dominance of the state tobacco company.

However, the administration must still find solutions to several problems that have bedevilled the privatisation process.

One is the reluctance of government agencies, such as the finance and industry ministries, to give up control of state-run companies.

There is also opposition among public sector workers to privatisation because of fears that it could lead to job losses. Employees at Korea Telecom, for example, have threatened to strike to protest at its planned privatisation.

Moreover, a rush of share issues by state companies could weaken the already fragile Seoul bourse by soaking up capital liquidity in the market.

An alternative would be for the government to sell state companies to private enterprises, but the *chaebol* are the only ones considered to have the financial resources to buy them. This would run counter to the government's policy of reducing the *chaebol's* economic power.

However, Mr Koo Bohn-young, the senior presidential economic adviser, suggested that the government was considering other options, such as selling state companies to consortia of private concerns instead of single corporate buyers.

ASIA-PACIFIC NEWS DIGEST

N Korea economy shrinks by 4.6%

The North Korean economy contracted 4.6 per cent in 1995, the sixth consecutive year of decline, according to an estimate by South Korea's central bank yesterday. The fall in economic activity reflected sluggish industrial production caused by a continued shortage of raw materials and energy, combined with poor harvests because of natural disasters such as flooding.

The Bank of Korea in Seoul estimated North Korea's gross national product had shrunk 25 per cent since 1989, with its nominal gross national product of $22.3bn only one-twentieth the size of South Korea's economy. The country's central bank predicted that North Korea would continue to slip down the global economic table because of deep structural problems caused by its traditional isolation. Its total trade volume amounted to only $2bn in 1995. North Korea last year ranked 60th in the world in terms of nominal GNP and 100th in per capita income at $957.

John Burton, Seoul

Thai bank licences proposed

Thailand's central bank has recommended that Mr Bodi Chunnananda, the finance minister, award at least three new domestic banking licences to consortia led by Italian-Thai Development, General Finance & Securities, and MBK Property and Development. They will be the first full commercial banking licences awarded since 1966.

SITCA Investment and Securities and the War Veterans Organisation of Thailand were disqualified for not meeting application criteria. The third unsuccessful applicant, First City Investment, was not recommended by the central bank, which questioned its ability to set up a strong institution as most of the consortium's partners rely on credit from the state-owned Industrial Finance Corporation of Thailand.

The banking licences must be approved by the Thai cabinet. Finance ministry officials have held out the possibility of allowing the disqualified groups to submit new applications before the minister presents his final proposal to the cabinet.

Ted Bardacke, Bangkok

Volcano disrupts NZ tourism

Four airports were closed and businesses disrupted yesterday in one of New Zealand's busiest tourist destinations, after a large area was blanketed in ash following a volcanic eruption. A vast ash plume spread north-east from Mt Ruapehu in the centre of the North Island, hitting the tourist centres of Taupo and Rotorua. No one was hurt.

The ash was at least 3cm deep and falling heavily. One resident said that by midday, cars were driving in darkness in Taupo, the town on the northern side of Lake Taupo, with heavy ash fall reported. "You couldn't breathe out there. It's horrible. It's in your hair and mouth," she said. Air space around the mountain from Rotorua to Whakatane in the north east was declared a danger zone and aircraft were warned to stay away from the black clouds.

Agencies, Wellington

Challenge to euthanasia law

An 11th-hour legal challenge to controversial voluntary euthanasia legislation in Australia's Northern Territory was lodged in the territory's Supreme Court yesterday. The legislation would permit doctors to assist terminally ill patients to die (subject to fairly stringent conditions) and is due to come into force on July 1.

The Northern Territory would be one of the first places in the world to make voluntary euthanasia legal. But court staff confirmed yesterday that the Northern Territory branch of the Australian Medical Association had lodged documents opposing the law, and a hearing has been set for Friday.

The Northern Territory government has said it will fight any attempts to seek an injunction to prevent the legislation coming into effect.

Nikki Tait, Sydney

Mekong scheme outline agreed

By James Kynge in Kuala Lumpur

Ministers from 11 Asian nations yesterday agreed on a framework jointly to develop the Mekong river basin, which links Thailand, Laos, Vietnam, Cambodia, Burma and south western China.

The framework, broadly phrased to ensure unanimity among participants, formalises a common ambition to build infrastructure, develop agriculture and tourism, and boost trade and investment in the resource-rich but underdeveloped region.

The scheme's centrepiece is the proposed construction of a railway from Singapore to the south western Chinese city of Kunming. Malaysia, which will head a committee on building the railway, announced that it would put up M$2m (US$800,000) for a feasibility study to determine its optimum route.

The railway's route is a subject of argument. Laos, a landlocked state, has pushed hard for the route to run through its capital, Vientiane. Burma is also keen that the railway should traverse its territory. Other countries argue that such detours would mean delays, lost efficiency and higher transport costs.

Thailand was appointed head of another committee on raising funds for all projects to be undertaken under the Mekong development plans.

Funding would be sought from the private sector, donor nations and international agencies, a compromise on an earlier proposal that the 11 core member countries each contribute to a Mekong Development Fund.

Laos, Cambodia and Vietnam had expressed reservations about such contributions, said officials at a meeting of the 11 core members yesterday (Brunei, Cambodia, China, Indonesia, Laos, Malaysia, Burma, the Philippines, Singapore, Thailand and Vietnam).

However, officials said privately that ultimately it was likely that Japan and the Asian Development Bank would be the main sources of funds, along with the wealthier core members such as Singapore, Malaysia and Thailand.

Tony Walker assesses the US deal with China on protection of intellectual property

Barshefsky makes best of difficult task

Ms Charlene Barshefsky, the acting US trade representative, last night hailed the Sino-US agreement to curb intellectual property rights abuses as an important step forward, saying it would result in "concrete and tangible action" by the Chinese to stamp out widespread counterfeiting.

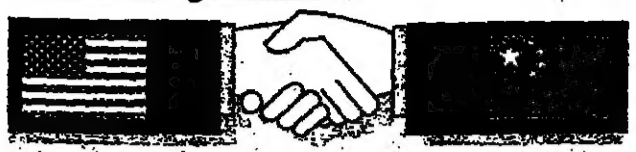
She contrasted the agreement reached yesterday with last year's framework arrangements which had "established the parameters of enforcement".

In February last year, however, Ms Barshefsky also trumpeted what was described as a "breakthrough" agreement with China on enforcement and market access. In the event, Chinese enforcement efforts were limp – industry representatives said the problem worsened – and progress on market access was "nil", as Ms Barshefsky later acknowledged.

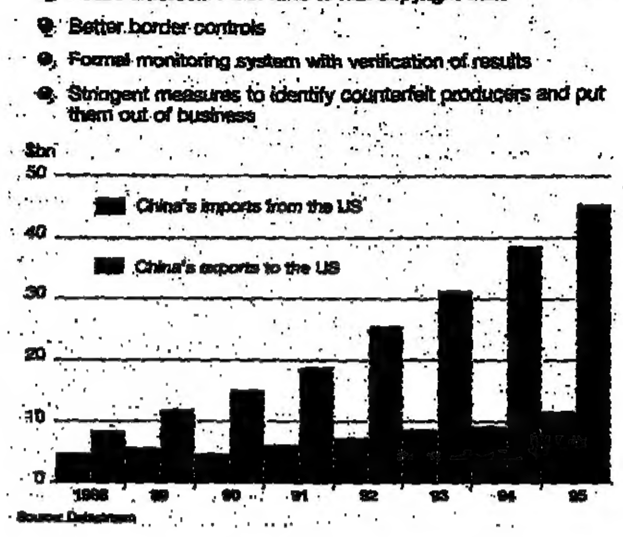
On the face of it, yesterday's agreement, reached as a deadline approached for the imposition of sanctions, does represent progress; although how effective it is will be determined by China's willingness to live up to its commitments. On this, its record is at best dubious.

Ms Barshefsky and her team of negotiators, who no doubt were under pressure from Washington to come up with an agreement with "teeth", appear to have made the best of a difficult job. Securing Chinese agreement to close 15 plants with capacity to produce 30m-50m units of such items as compact and laser discs and CD-Roms represents an advance.

A basis for agreement



- Improved market access for US goods
- Police enforcement of laws to halt copyright theft
- Better border controls
- Formal monitoring system with verification of results
- Stringent measures to identify counterfeit producers and put them out of business



A ban on new CD factories and seizure of machinery and material used to manufacture pirate items should also reinforce the message to counterfeiters that life will become more difficult; although it will take weeks to assess whether circumstances really have changed on the ground.

Until the US threatened sanctions earlier this year, pirate producers operated with relative impunity under the noses of the authorities in some 34 factories, most of them in Guangdong province.

China's undertaking to close CD "distribution markets" and "laser disc showing rooms" where pirated films are shown for an admission fee also accords with the spirit of the latest agreement; but again this measure will be difficult to enforce in a country as large and diverse as China.

Ms Barshefsky praised China's decision to extend until August its present crackdown on counterfeiting, but Beijing could hardly have offered less, given the dimensions of the problem.

US negotiators also elicited undertakings that the Chinese customs office, which "oversees" one of the world's most porous frontiers, would heighten their efforts to stop the export of counterfeit goods. Since the beginning of 1996, customs has seized 80,000 pirated items, only a tiny fraction of exports of pirated CDs, laser discs and CD-Roms.

China has also agreed to step up monitoring of CD factories to ensure that copyright procedures are respected. Among undertakings is that before production of new recordings, the factories will check with the "appropriate US association" to verify royalty arrangements are in order. A weakness of this provision is that monitoring will be in the hands of Chinese law-enforcement officers who may find it difficult to resist local pressures to turn a blind eye.

Coding on CDs and on the moulds used to produce them will in theory help ensure that pirate products are cut off at source. But this will require a higher level of vigilance than has been demonstrated thus far by Chinese security.

Agreement on improved market access for US information and entertainment products appears to have been a big hurdle for negotiators. Ms Barshefsky said that "commitments to market access in the 1995 agreement were sweeping but enforcement was nil".

On this occasion, China appears to have gone further than last year's undertaking by specifically agreeing to allow recording companies and film studios to engage in co-production ventures with Chinese producers. The US believed it had got this understanding last year, but was disappointed.

It will take time before it becomes clear whether China is able to live up to this element of the agreement. Chinese sensitivity about the introduction of "foreign culture" will continue to make it difficult for US recording companies and film studios to get their products past the censor. On paper this may appear like an important concession, but constraints will be real.

Charlene Barshefsky, escorted by a Chinese security guard and colleague Lee Sands (right), heads for piracy talks yesterday Reuter

● Hong Kong yesterday expressed relief at the agreement.

"Since both China and the US are Hong Kong's largest trading partners, Hong Kong's economy would be affected even if there were limited sanctions," said Ms Denise Yue, secretary for trade and industry. Hong Kong's government had said the colony stood to lose about HK$13.4bn (US$1.73bn) of its re-export trade and 11,500 jobs if China and the US had launched tit-for-tat trade sanctions.

Mr Eddy Li, president of the China and Hong Kong Economic and Trade Association, said the deal would boost China's chances of having its Most Favoured Nation (MFN) trade status approved by Congress.

EU set to start talks on 'open skies' with US

By Neil Buckley in Luxembourg

The European Commission is set to launch negotiations with the US on a European Union-US "open skies" agreement to liberalise civil aviation, after securing a mandate from EU transport ministers in Luxembourg yesterday.

After 15 months of negotiations, only the UK opposed the unexpected move authorising the Commission to begin exploratory talks with the US.

The deal came days after British Airways and American Airlines unveiled the world's most powerful air alliance – the latest in a string of bilateral agreements between EU states and carriers and the US.

The joint mandate represents victory for Mr Neil Kinnock, transport commissioner, in his vigorous campaign to persuade EU members they can secure better deals with the US by negotiating collectively rather than individually.

"This mandate will ensure that EU carriers can take full benefit of liberalised global air markets and secure for them and their passengers free, fair and above all reciprocal rights across the Atlantic," Mr Kinnock said.

Mr Kinnock stressed the Commission's negotiations would involve "no roll-back" of existing bilateral agreements between the US and EU members Austria, Belgium, Denmark, Luxembourg, Sweden, Finland and Germany, or negotiations on agreement between the US and France.

The potential prize for EU members is greater access to US routes and airports, and rights to own and operate airlines there. The US has its eye on lucrative markets with which it has no open skies agreement, particularly France, Spain and Italy.

The two-stage mandate allows the commission first to negotiate on "soft rights", including competition issues such as ownership and state aids, and operation of code-sharing and computer reservation systems.

Subject to progress on these, and a further positive vote from transport ministers, the Commission can move to the more sensitive issue of traffic rights, or which destinations airlines are allowed to fly to.

Although the talks would be in two stages, the EU envisages a single, all-embracing agreement. The US welcomed the mandate but expressed caution about the two-stage system. It views traffic rights as central to any talks.

The Commission will now set up a committee of member states' aviation experts to advise on the negotiations, but full talks may not begin until the autumn.

Several member states previously opposed granting the mandate, but the remaining dissenters, Portugal and France, were won over yesterday by adoption of the two-stage approach.

The UK, however, has consistently opposed EU-wide negotiations, and attacked yesterday's deal as a "regrettable decision". Its negative vote was unconnected with Britain's non-cooperation policy over the beef crisis.

WORLD TRADE NEWS DIGEST

Thailand near Burma gas deal

Thailand and Burma yesterday moved closer to a big natural gas supply deal as the two countries pledged their support for a quick conclusion to negotiations between the state-owned Petroleum Authority of Thailand (PTT) and a consortium of Texaco, Premier Oil, Nippon Oil and the Myanma Oil and Gas Enterprise.

The 30-year supply agreement would have PTT agreeing to purchase 200m cubic feet per day of natural gas from the 1,100bn cu ft Yetagun field in Burma's Andaman Sea.

Last year PTT signed a contract to buy 525m cubic feet a day of natural gas from a consortium led by Total and Unocal, which controls the larger Yadana field. Construction of a pipeline across Burma to deliver this gas to Thailand is continuing. Gas from the Yetagun field would be transported along the same on-shore route as gas from the Yadana field, but in a different pipeline until it reached the Thai side of the border, where it would merge into one pipeline.

PTT officials said that they expected a formal agreement within a couple of months. Outstanding issues include supply guarantees demanded by the PTT and a price escalation formula.

Ted Bardacke, Bangkok

Japan chip market more open

The share of foreign companies in Japan's semiconductor market rose to 30.6 per cent in the first quarter of this year against 22.8 per cent in the first quarter of 1995, the US Trade Representative's office said.

In the last quarter of 1995 the foreign share of Japan's semiconductor market was 29.6 per cent. Coinciding with the publication of the figures, the US yesterday renewed its demand for continued government involvement in helping foreign manufacturers maintain their access to the Japanese microchip market.

The US-Japan semiconductor accord, which ensures a minimum foreign share of 20 per cent of the Japanese market, expires on July 31. Japan does not wish to renew the agreement because it feels the market share targets have been successfully met.

Foreign Staff, Washington

US move on maritime talks

The US yesterday proposed putting off stalled World Trade Organisation talks on liberalising maritime transport to a new round of negotiations on services due in the year 2000.

US officials told a meeting of the maritime services negotiating group in Geneva that Washington stood by its earlier decision not to submit an offer in the WTO talks, due to end on June 30. Mr Don Kenyon, the Australian WTO ambassador who chairs the group, will hold consultations this week on what to do next, ahead of a further meeting next Monday.

The EU and 23 other countries had hoped to prompt the US to reconsider its stand by tabling an improved package of liberalisation proposals, an offer which lapsed on Friday. But negotiators in private have always recognised that the US would have enormous difficulty in overcoming the opposition of the small but powerful domestic maritime lobby to a multilateral deal, especially in a presidential election year.

EU officials said yesterday they were disappointed by the US decision and suggested the negotiations might be resumed "after a pause", though before 2000. Other delegations, including Japan, appear to favour a prolongation of the present talks.

Frances Williams, Geneva

Polyester yarn dumping duties

The European Union yesterday said it was imposing definitive anti-dumping duties on imports of polyester yarn from Taiwan and Turkey, in view of continuing undercutting on the EU market. The duties will range between 3.3 and 16.1 per cent of net-at-EU frontier price according to the company exporting and the kind of yarn, the EU's Official Journal said.

"In order to provide adequate protection from continued injurious dumping by Turkish and Taiwanese imports and to prevent the recurrence of injury it is considered that anti-dumping duties should be established in such a way as to allow the Community industry to obtain a reasonable profit," it said.

Reuter, Brussels

■ GEC Alsthom, the Anglo-French group, said its European Gas Turbines unit won orders for gas turbines in China, Korea and Europe totalling more than Ecu65m ($80m). *AFX, Paris*

■ Ericsson Telefon of Sweden has won a contract to supply the Concert joint venture with an Intelligent Network Service Creation Environment System. Concert is a joint venture between British Telecom and MCI Communications of the US. *AFX, Stockholm*

Call for worldwide rules on competition

By Guy de Jonquières

World Trade Organisation members should commit themselves to establishing basic competition laws and enforcement systems as a first step towards agreeing binding global competition rules, a European Commission paper has proposed.

The paper, by Sir Leon Brittan and Mr Karel Van Miert, trade and competition commissioners, says that lack of global competition rules restricts free trade, threatening to provoke international trade conflicts and limiting the effectiveness of EU competition policy.

The paper, to be discussed by the Commission tomorrow, urges the EU to press for competition policy to be on the world trade agenda at the WTO's ministerial conference in Singapore in December.

Sir Leon and Mr Van Miert say it is too soon to consider setting up an international competition authority, with its own investigation and enforcement powers. They call for WTO members to move progressively towards agreement on common rules.

These would seek to promote equal conditions of competition worldwide, permit closer co-operation among competition authorities and promote the gradual convergence of domestic competition laws.

The paper says the WTO should set up a compliance mechanism for competition policy, similar to its trade disputes settlement procedures, so that common rules could be enforced.

The mechanism could discipline countries that failed to set up domestic competition policy regimes, or ones that ignored requests from other WTO members to enforce their domestic laws where specific cases arose.

The paper says a WTO agreement on closer co-ordination and enforcement of domestic competition laws might need to be limited initially to industrialised economies and those developing countries which had the administrative machinery needed to handle sensitive commercial information.

Sir Leon and Mr Van Miert say effective global rules are needed to tackle anti-competitive practices which frustrate trade, and to avoid international disputes.

They cite, in particular, US attempts to impose competition laws extra-territorially and permit trade action against countries tolerating anti-competitive practices.

The EU paper says closer global co-operation on competition should not supersede trade defences, such as anti-dumping laws, which should remain in effect until national economies were much more fully integrated.

NEWS: THE AMERICAS

Clinton fury at Whitewater report leaks

By Jurek Martin, US Editor, in Washington

The White House is reacting furiously to partial leaks of the Senate Whitewater committee report that its Republican majority is to make public today.

Mrs Hillary Rodham Clinton yesterday confronted her Senate accusers for the first time, when she sent a written reply to questions from the Whitewater committee.

She said she did not know how billing records detailing her work for the savings and loan at the centre of the Whitewater investigation came to be removed from her law firm, or how they showed up two years later in the White House.

Mrs Clinton's lawyer complained that Senate Republicans had leaked the findings of the investigation before the First Lady had even finished drafting answers to their questions, which she received late last week.

"It simply makes no difference what information we furnish you," Mr David Kendall wrote in a letter transmitting Mrs Clinton's answers. The Republican majority report on Whitewater was "simply the politically preordained verdict of a kangaroo court."

Yesterday morning Mr Mark Fabiani, an associate legal counsel to President Bill Clinton observed that Washington "is the only place in the country where an ethics report by Senator [Al] D'Amato would be taken seriously." The senator from New York is chairman of the committee, whose mandate expired yesterday.

"In most parts of the country," he went on, "people understand that Senator D'Amato is the chairman of Bob Dole's presidential campaign and that he's run 14 months of hearings at taxpayer expense that basically result in a paid campaign contribution."

In targeting the messenger, Mr D'Amato, the White House is trying to blunt the impact of Whitewater and other related affairs.

Yesterday in Little Rock, Arkansas, the trial began of two local bankers accused of illegally diverting funds to then Governor Clinton's re-election campaign in 1990.

The case of the FBI personnel files on prominent Republicans, requested by the White House in 1993-94, is also attracting widespread interest.

The latest batch of leaks, released for yesterday's media, allege that White House lawyers "seriously misused" their public offices by working on Whitewater-related matters for the first family, including passing on information from government agencies to the Clintons' personal lawyers.

The majority report is also reportedly highly critical of what it calls "highly improper conduct" by several close associates of Mr and Mrs Clinton inside and outside the White House. They include Mr Bernard Nussbaum, who resigned as White House legal counsel under fire for his handling of Whitewater, and Mr Harold Ickes, deputy White House chief of staff and a top re-election strategist for Mr Clinton.

The cumulative weight of allegations does appear to be taking some toll, especially now that Mr Dole may be cutting into Mr Clinton's lead in the polls.

Banks hold key to Mexico's recovery

Businesses are starved of loans in country's 'Can't Pay, Won't Pay' culture

Mexico's banking crisis continues to dog Mr Guillermo Ortiz, the finance minister. Due to address a financial convention in the northern city of Monterrey this month, he found his path blocked by a mob of angry debtors.

The minister flew back to Mexico City, his speech undelivered in another publicity coup for *El Barzón*, a militant debtors' movement that has bedevilled the lives of Mexico's scions of finance since the country's economic crisis erupted in December 1994.

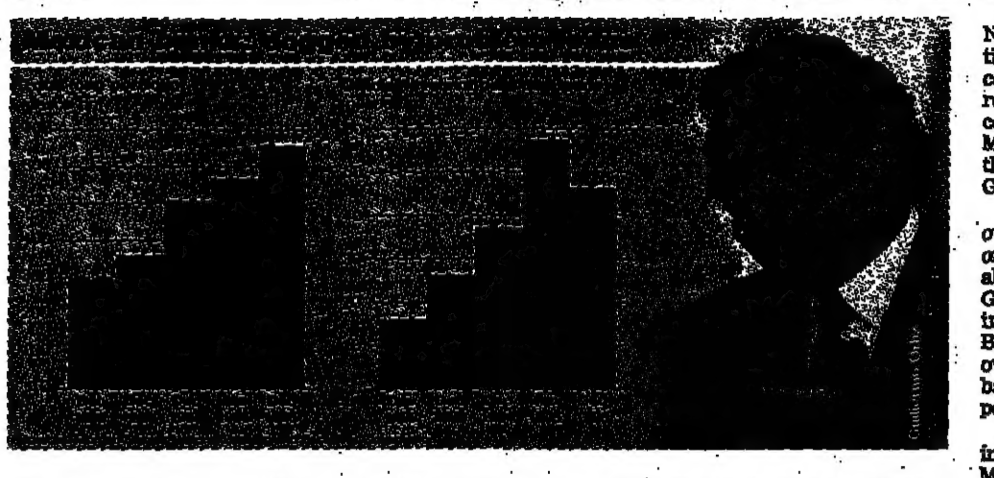
El Barzón – The Yoke – claims more than 1m members nationwide and appears to have lost none of its disruptive power despite government relief schemes to help Mexico's over-indebted middle classes.

The latest programme, announced last month, aims to lower the cost of mortgages by 30 per cent. The government says the programme will benefit almost all Mexico's 900,000 mortgage-holders, who took out home loans in the early 1990s when the economy was growing, interest rates were low and finance was plentiful. The snag is that to qualify for mortgage relief, borrowers have to be up to date with their payments, and most are not.

Most mortgage holders stopped servicing their debts last year, when the financial turmoil triggered by the 1994 peso devaluation led domestic interest rates to shoot above 100 per cent.

That was when Mrs Maria Ramírez, a matronly teacher in her 50s, stopped servicing her 80,000 peso ($10,800) mortgage. A year on, with interest penalties and a host of other charges and commissions, she owes her bank 340,000 pesos, a sum which far exceeds the value of her modest dwelling. "There is no way I can service this debt," she said as she joined a queue outside the offices of El Barzón in Mexico City.

Officials concede that relief schemes implemented so far have met only partial success. "Each time we have introduced a new relief programme, we thought it would be the last," says Mr Javier Gavito, a vice-president at the National Banking and Securities Commission.



He blames the prolonged recession, now in its 18th month, high inflation and high interest rates for undermining the effectiveness of debt relief programmes. But his biggest nightmare is the "Can't Pay, Won't Pay" culture which has taken hold in Mexico.

Other interest groups are now clamouring for special attention, including the farming lobby, expected to get its own debt-relief programme before the end of the month. Smaller businesses are next in line.

The banks themselves, meanwhile, need help to keep loans current as they prepare for the introduction of US accounting standards early next year. At present, Mexican banks only record as past-due loan instalments not paid after 30 days, while the remaining balance is considered current. By contrast, US banks must record the entire loan as past-due if no payment has been received for 90 days.

"If Mexican banks had to adopt US standards today, the true level of non-performing loans would be closer to $50bn – half of the total loans in the system – rather than the $20bn which are considered past-due at present," says Mr Rogelio Ramírez de la O, an economist with Ecanal consultants in Mexico City.

Seven banks have collapsed since late 1994 and required government bailouts. An eighth, Serfin, the third-largest, narrowly escaped central bank intervention, but only because the government was willing to guarantee $710m of emergency credits from JP Morgan of the US and ING Barings of the Netherlands to strengthen Serfin's capital.

The credits have given Serfin's controlling shareholders, which include Grupo Vitro, the glass manufacturer, a year in which to find a foreign partner to recapitalise the bank. Hongkong and Shanghai Bank is said to be interested.

In addition, the emergency capital has allowed Serfin to take advantage of a relief scheme in which banks can sell their bad loans to the government if shareholders inject fresh capital into the bank. The ratio set by bank regulators is 2 pesos of bad loans for every peso of additional capital.

"If things go well for Serfin, the government will have incurred no cost," says Mr Eduardo Fernández, Mexico's chief bank regulator. "If things go badly, we take over the bank."

So far, the government has bought 87bn pesos of bad loans from 11 distressed banks, which are now in the process of extracting more money from existing shareholders or selling large chunks of their businesses to foreign takers to meet capital requirements.

Banco Bilbao Vizcaya of Spain acquired Probursa, Mexico's 12th-largest bank, in June. Last week, it consolidated its position by signing a letter of intent to purchase Banca Cremi, a failed mid-size bank under government control.

Bank of Nova Scotia took control of Inverlat, the fifth-largest bank. Bank of Boston is said to be negotiating the acquisition of Banco Mexicano, another medium-sized bank with a troubled portfolio of corporate loans.

The foreign takeovers will almost certainly involve further sales of bad loans to the government, which is one reason officials and bank analysts are still juggling with estimates of the total cost of Mexico's banking crisis.

Mr Fernández at the National Banking and Securities Commission estimates the cost of loan purchases and debt relief schemes to date at 6.5 per cent of gross domestic product. Most economists, however, put the cost at above 10 per cent of GDP.

"We think the government is over-estimating the proportion of bad loans which it will be able to recover," says Mr José García-Cantera, a senior banking analyst at Salomon Brothers in New York, whose own estimate of the cost of the banking crisis approaches 12 per cent of GDP.

Such estimates do not include the wider costs to the Mexican economy as a whole. For the foreseeable future, Mexico's debilitated banking system will be unable to function as an efficient purveyor of capital for businesses starved of credit, while the burden of bad debts will continue to impose a heavy tax on the cost of finance.

"We are worried that the government's efforts have not been directed at getting the banks to start lending again," says Mr Alfredo Thorne at JP Morgan in Mexico City. "The government seems to think that an economic recovery will do away with the weaknesses in the Mexican banking system, whereas the recovery will not take place unless the banks are strengthened first."

Leslie Crawford and Daniel Dombey

US NEWS DIGEST

US allows Karadzic charges

The US Supreme Court yesterday ruled that women raped and tortured during the war in Bosnia could file charges in the US against Mr Radovan Karadzic, Bosnian Serb leader, for crimes against humanity, Laura Silber reports from Belgrade.

The court turned down Mr Karadzic's defence that he could not be sued because he is a private citizen and none of the alleged crimes were committed in the US.

The ruling comes against a background of failed international efforts to unseat Mr Karadzic, indicted for war crimes by the UN tribunal in The Hague.

It coincides with reports from the Moslem-led Bosnian government that international mediators have struck a deal paving the way for the Bosnian Serb leader to step down before Bosnian elections, due to be held in September.

Yesterday the tribunal dismissed charges against Mr Goran Lajic, a Bosnian Serb who was accused of killing at least five Moslem prisoners, because of mistaken identity.

Rash of church fires continues

Fire destroyed a black church in south-eastern North Carolina yesterday, the second such fire in the state in less than two weeks, Reuter reports from Rocky Point.

A fire yesterday also badly damaged a former sanctuary at a church in Georgia with a mostly white congregation.

A rash of church fires, most at predominantly black churches, has touched off anxieties that a conspiracy or copycat crimes may be involved.

Boost for tobacco courts campaign

The emergence of new whistleblowers revealing the industry's alleged practices is helping states seeking to sue tobacco companies for smokers' healthcare costs, Mr Mike Moore, Mississippi attorney general, said yesterday, Reuter reports from West Palm Beach.

Mr Moore, the first state attorney general to sue the industry, told a tobacco litigation conference that he had also been contacted by lawyers in South America, Australia, Canada and Britain about filing cases against tobacco companies.

He said the attack on the tobacco industry was growing with the emergence of the whistleblowers and with steadily increasing interest by states, cities and foreign countries in suing cigarette makers.

Helms-Burton undermines international investor climate, says Ottawa

Canada retaliates against US law

By Bernard Simon in Toronto and Guy de Jonquières in London

Canada yesterday became the first country to retaliate against US legislation which would penalise foreign companies doing business in Cuba.

Mr Arthur Eggleton, trade minister, unveiled several measures designed to discourage US companies from taking action against Canadian companies and their executives.

Mr Eggleton spoke as the US published official guidelines for enforcing Title 4 of the Helms-Burton Act, which permits the US to deny entry visas to executives of foreign companies which have "trafficked" in confiscated property in Cuba.

Mr Eggleton said Ottawa would call for a meeting of the ministerial commission set up under the dispute settlement provisions of the North American Free Trade Agreement. Canada contends that the entry ban violates Nafta guarantees on free travel between the two countries.

Ottawa also plans to tighten the Foreign Extraterritorial Measures Act, which allows Canadian companies to ignore US court rulings. The changes would clear the way for Canadian companies to move against assets held in Canada by US complainants. Canadians would also be able to countersue in Canada for costs for damages awarded in the US.

However, the amendments will not be presented in parliament until President Bill Clinton decides later this summer whether or not to waive parts of the Helms-Burton law.

Mr Eggleton said Helms-Burton, named after its Republican sponsors in Congress, "takes aim at [the US's] foe, and then shoots its friends. It undermines the international investment climate and does nothing to encourage trade liberalisation."

Although foreign investors have lobbied the State Department intensively to make the guidelines as precise as possible, some said yesterday that some provisions of the final version were vague and ambiguous.

Concern centres particularly on a provision which would allow Title 4 to be applied to "corporate officers of a parent or subsidiary ... if they perform policy-making functions for the entity".

Some foreign investors fear the provision could entitle the US to expel managers of the US subsidiaries of foreign companies, as well as to deny entry to senior executives of the parent companies.

They also complain that the guidelines do not define exactly the circumstances in which a company having "business dealings" with a company found guilty of "trafficking" would also be covered by the act.

Cuba confident of growth despite US legislation

By Pascal Fletcher in Havana

Cuba's economy has been boosted by advances in tourism and in sugar and nickel production, and is maintaining a gradual recovery which will help to counter the impact of US legislation aimed at discouraging foreign investment on the island, the government has announced.

Vice president Carlos Lage said the economy was expected to sustain in the first six months of this year the 7 per cent growth in gross domestic product achieved in the first quarter.

"We can say that, in spite of the Helms-Burton Law, the economy is maintaining its rhythm of recovery," Mr Lage told a meeting of Latin American parliamentarians at the weekend.

He acknowledged that the legislation, introduced by Washington on March 12, which threatens penalties against foreign investors who "traffick" in expropriated, formerly US-owned properties in Cuba, could slow the pace of foreign investment.

However continuing economic recovery, coupled with growing international condemnation of the US legislation, would help to limit the effect of the measures.

Mr Lage said an improved 1995/96 sugar harvest – 4.45m tonnes so far this season compared with last year's record low crop of 3.3m tonnes – had contributed to this year's growth. Tourism was also gaining and nickel production was on track for a record output of 50,000 tonnes in 1996.

The government has set an official target of 5 per cent GDP growth this year, following 2.5 per cent reported for 1995. Foreign analysts say the growth figures must be seen in the context of the depressed state of the economy, the result of a severe recession which pushed down GDP levels by nearly 35 per cent between 1989 and 1993.

LEGAL NOTICES

In the High Court of Justice No. 002349 of 1996
Chancery Division, Companies Court
In the matter of Fiat Auto (U.K.) Limited
and
In the matter of the Companies Act 1985

NOTICE IS HEREBY GIVEN that a Petition was on 24th May, 1996 presented to Her Majesty's High Court of Justice for the confirmation of the reduction of the capital of the above-named Company ... AND NOTICE IS FURTHER GIVEN that the said Petition is directed to be heard before the Companies Court Registrar at the Royal Courts of Justice, Strand, London WC2A 2LL, on Wednesday the 3rd day of July 1996. ANY Creditor or Shareholder of the said Company desiring to oppose the making of an Order for the confirmation of the said reduction of capital should appear at the time of the hearing in person or by Counsel for that purpose. A copy of the said Petition will be furnished to any such person requiring the same by the undermentioned Solicitors on payment of the regulated charge for the same.

DATED this 18 day of June 1996

Solicitors for the above-named Company

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

UNITED STATES

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	101.9	98.6	102.1	99.8	85.0
1987	105.6	100.7	103.9	97.5	76.1
1988	109.9	103.2	106.8	99.4	71.0
1989	115.2	108.5	109.8	101.4	74.9
1990	121.5	113.9	113.5	104.0	73.2
1991	126.6	116.3	117.3	107.2	70.8
1992	130.4	117.7	120.1	107.2	74.1
1993	134.3	118.2	123.1	108.7	76.4
1994	137.8	119.8	126.2	105.4	74.3
1995	141.7	122.2	129.5	104.7	68.7
2nd qtr.1995	3.1	2.1	2.3	-0.5	68.5
3rd qtr.1995	2.6	1.5	2.7	-0.7	68.4
4th qtr.1995	2.5	2.2	2.6	-0.6	69.9
1st qtr.1996	2.7	2.2	2.7	-1.9	71.9
June 1995	3.0	2.1	2.3	-0.5	66.5
July	2.8	1.7	2.5	-0.2	68.5
August	2.6	1.5	2.8	-0.6	68.7
September	2.5	1.6	2.6	-1.4	69.8
October	2.8	2.2	2.5	-0.6	69.5
November	2.6	2.2	2.8	-0.8	69.6
December	2.5	2.3	2.7	-0.4	70.6
January 1996	2.7	2.2	3.4	-1.4	71.5
February	2.7	2.0	2.7	-2.4	71.6
March	2.8	2.4	2.2	-2.0	72.3
April	2.9	2.6	3.4	-2.0	72.9
May	2.9				72.4

JAPAN

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	100.6	95.3	101.9	102.6	118.5
1987	101.3	92.8	103.1	100.0	122.6
1988	102.1	92.3	107.6	96.0	131.0
1989	104.4	94.2	114.0	96.8	123.6
1990	107.7	95.7	120.1	99.7	106.2
1991	111.2	96.8	124.3	103.6	113.2
1992	113.1	95.9	125.8	112.8	114.6
1993	114.6	94.3	125.8	119.9	119.8
1994	115.4	93.4	128.4	118.5	137.4
1995	115.2	92.6	131.6	116.1	135.3
2nd qtr.1995	-0.1	-0.5	2.3	-3.3	151.4
3rd qtr.1995	-0.2	-0.7	3.7	-0.1	136.9
4th qtr.1995	-0.5	-0.5	2.4	-2.6	128.1
1st qtr.1996	-0.3	-0.9	1.9	-0.8	122.1
June 1995	0.0	-0.6	0.9	-2.0	150.6
July	-0.1	-0.7	8.5	-0.5	145.2
August	-0.1	-0.7	3.5	-0.1	136.3
September	0.0	-0.8	2.3	0.2	129.6
October	-0.2	-0.6	2.3	-1.2	127.2
November	-0.6	-0.8	2.6	-2.9	125.6
December	-0.5	-0.8	4.3	-0.6	124.0
January 1996	-0.5	-0.9	4.8	-0.1	122.8
February	-0.3	-0.8	3.0	-2.8	122.3
March	-0.1	-0.9	2.7	3.0	121.8
April	0.3	-0.9			120.6
May	0.2				122.3

GERMANY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	99.9	97.5	103.6	103.1	107.5
1987	100.1	95.0	107.9	107.1	110.9
1988	101.4	96.2	112.6	108.5	108.8
1989	104.2	99.3	117.1	108.0	108.0
1990	107.0	101.0	123.5	110.3	110.6
1991	110.9	103.4	131.3	116.0	107.6
1992	116.5	104.9	139.2	122.7	110.4
1993	121.7	105.1	146.1	122.1	112.6
1994	125.1	105.7	150.6	118.1	110.0
1995	127.4	107.5			115.1
2nd qtr.1995	1.9	1.9	3.6		116.1
3rd qtr.1995	1.7	1.9	3.3		114.5
4th qtr.1995	1.7	1.3			114.6
1st qtr.1996	1.6	-0.2			114.1
June 1995	1.9	2.0	n.a.		116.5
July	1.9	2.0	n.a.		114.5
August	1.7	1.6	n.a.		114.2
September	1.6	1.9	n.a.		114.6
October	1.9	1.6	n.a.		115.5
November	1.8	1.2	n.a.		115.3
December	1.8	0.6	n.a.		114.6
January 1996	1.7	0.0	n.a.		113.8
February	1.7	-0.3	n.a.		113.5
March	1.5	-0.5	n.a.		113.9
April	1.6	-0.3	n.a.		112.8
May	1.7	-0.3	n.a.		112.5

FRANCE

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	102.5	98.0	104.0	102.4	104.7
1987	105.9	98.1	107.8	103.0	104.7
1988	108.8	103.6	111.1	104.8	102.2
1989	112.6	108.2	115.4	106.2	99.7
1990	116.5	107.1	120.5	108.6	103.8
1991	120.0	105.9	125.6	113.4	100.8
1992	123.1	104.3	130.3	115.6	104.5
1993	125.5	101.6	133.5	118.1	106.5
1994	127.7	102.7	136.9		106.3
1995	130.0	109.7	139.0		106.3
2nd qtr.1995	1.6	6.8	2.2		105.8
3rd qtr.1995	1.6	7.6	2.8		106.4
4th qtr.1995	1.9	3.3	2.8		107.2
1st qtr.1996	2.1		2.8		106.6
June 1995	1.6	n.a.	n.a.	n.a.	105.6
July	1.5	n.a.	n.a.	n.a.	106.3
August	1.9	n.a.	n.a.	n.a.	106.4
September	2.0	n.a.	n.a.	n.a.	106.5
October	1.8	n.a.	n.a.	n.a.	106.8
November	1.9	n.a.	n.a.	n.a.	107.8
December	2.1	n.a.	n.a.	n.a.	107.3
January 1996	2.0	n.a.	n.a.	n.a.	107.1
February	2.0	n.a.	n.a.	n.a.	106.5
March	2.3	n.a.	n.a.	n.a.	106.5
April	2.4	n.a.	n.a.	n.a.	106.5
May	2.4	n.a.	n.a.	n.a.	105.8

ITALY

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	106.1	100.6	106.1	105.1	101.3
1987	111.0	103.2	111.6	105.5	102.3
1988	116.5	108.8	118.4	109.7	100.9
1989	124.2	115.1	125.6	112.3	105.6
1990	131.7	117.6	134.7	118.8	110.3
1991	140.3	121.7	145.8	126.4	113.3
1992	147.7	125.9	155.9	128.5	110.8
1993	153.6	128.7	161.6	136.7	95.4
1994	160.0	133.5	167.0	137.9	93.4
1995	168.8	143.9	172.2		89.7
2nd qtr.1995	5.5	8.8	2.3	-3.2	87.0
3rd qtr.1995	5.7	9.0	3.6	9.2	92.0
4th qtr.1995	6.0	7.2	3.8		93.5
1st qtr.1996	5.0	4.6	3.3		96.3
June 1995	5.8	9.2	2.2	n.a.	89.4
July	5.6	9.2	3.5	n.a.	89.0
August	5.8	9.0	3.4	n.a.	92.5
September	5.8	8.4	3.8	n.a.	94.5
October	5.8	7.9	3.8	n.a.	94.1
November	6.0	7.2	3.9	n.a.	92.5
December	5.8	6.5	3.9	n.a.	93.4
January 1996	5.5	5.9	3.2	n.a.	95.0
February	5.0	4.9	3.2	n.a.	97.1
March	4.5	3.6	3.2	n.a.	97.2
April	4.5		3.4	n.a.	100.8
May	4.3			n.a.	103.1

UNITED KINGDOM

	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1985	100.0	100.0	100.0	100.0	100.0
1986	103.4	101.4	107.7	105.1	[illegible]
1987	107.7	104.9	116.3	107.7	[illegible]
1988	113.0	108.7	126.2	110.4	[illegible]
1989	121.8	113.6	137.2	115.1	[illegible]
1990	133.3	121.0	150.1	122.7	[illegible]
1991	141.2	127.5	162.4	129.5	[illegible]
1992	146.7	131.5	173.1	130.5	[illegible]
1993	148.9	136.3	179.4	130.2	[illegible]
1994	152.4	140.1	185.9	132.4	[illegible]
1995	157.6	145.9	197.9	134.2	[illegible]
2nd qtr.1995	3.4	4.2	4.7	2.2	[illegible]
3rd qtr.1995	3.7	4.4	3.5	2.6	[illegible]
4th qtr.1995	3.1	4.4	3.9	4.2	[illegible]
1st qtr.1996	2.8	3.8	4.4	3.2	[illegible]
June 1995	3.5	4.2	4.4	2.5	[illegible]
July	3.5	4.4	4.4	2.6	[illegible]
August	3.6	4.4	4.2	2.8	[illegible]
September	3.9	4.4	4.2	2.8	[illegible]
October	3.2	4.4	2.9	2.6	[illegible]
November	3.1	4.2	3.9	3.5	[illegible]
December	3.2	3.9	4.7	[illegible]	[illegible]
January 1996	2.9	3.6	4.8	[illegible]	[illegible]
February	2.7	3.4	4.6	[illegible]	[illegible]
March	2.7	3.6	4.6	3.8	[illegible]
April	2.4	3.4	4.6	3.0	[illegible]
May	2.2				[illegible]

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources, and by JP Morgan. New York. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted, US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. Earnings index: not seasonally adjusted (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, refers to earnings in manufacturing except France and Italy (total economy). Real exchange rate: JP Morgan real effective exchange rate index versus 18 industrial country currencies, adjusted for changes in relative wholesale price of domestic manufactures. A fall in the index indicates improved international competitiveness.

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IN BRIEF

Deutsche Babcock warns of big loss

Deutsche Babcock, the German engineering group struggling to restructure many of its lossmaking activities, warned it expected operating losses of up to DM300m ($197m) for the current year which ends on September 30. Page 17

Former Chiroscience chief in legal action

Mr Nowell Stebbing (left), one of the UK's best-known pharmaceutical entrepreneurs, is taking legal action against Chiroscience, the company he steered to a stock market flotation in 1994. His writ against Chiroscience, one of the London stock market's strongest performers this year, alleges he was wrongfully dismissed as deputy chairman last August. He is also claiming damages for the wrongful removal of share options worth £3.5m-£5.5m ($5.35m-$8.4m). Page 21

Japan Tobacco offer set at 3% discount
The price for the second offering in shares of Japan Tobacco, the country's sole tobacco company, has been set at Y815,000 per share, representing a 3.1 per cent discount on yesterday's closing price of Y841,000 a share. The sale will be worth about Y222bn ($2.04bn). Page 16; Excise dispute forces dividend cut at ITC, Page 16

Mediaset head says float will fund growth
The chairman of Mediaset, Mr Silvio Berlusconi's media company, said the group's forthcoming flotation would help "democratise" the Milan stock exchange, and fund further expansion in new markets and sectors. Page 17

Deutsche Telekom supervisory head quits
Deutsche Telekom, which is due to engineer Germany's biggest stock exchange listing later this year with a DM15bn ($9.8bn) share issue, is losing Mr Rolf-Dieter Leister, the long-standing head of its non-executive supervisory board, who said he would step down on July 1. Page 17

Compaq plans broad range of laptop PCs
Compaq Computer aims to get back to its roots as one of the first manufacturers of portable personal computers with the introduction of a broad new range of laptop PCs. Page 18; Sony set to enter US home PC market, Page 16

Forte finance chief to join WH Smith
Mr Keith Hamill, widely admired for his part in the UK hotel group Forte's defence against Granada's £3.9bn ($5.96bn) hostile bid, is to become finance director of W.H. Smith, the UK retailer. Page 20

Trans-World Metals climbs producer table
Trans-World Metals has become the world's third-largest aluminium producer. This revelation came from Mr Alan Bekhor, managing director of the UK-based group previously best known as one of the world's biggest traders of the metal. Mr Bekhor's remarks came during the first world aluminium conference organised by the Financial Times and the CRU International consultancy organisation. Page 23

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Goldschmidt	600	+	20
Hochtief	684	+	10
Falls			
Badenwerk	530	-	10
Bankges Berlin	319.5	-	9
Dragerwerk	238	-	10
Lufthansa	223.8	-	11.2
NEW YORK ($)			
Rises			
Kansas City	27¾	+	1¾
Piedmont Nat	22⅞	+	1⅞
Total Sys Svcs	24¾	+	1⅝
Falls			
Apogroup	35¾	-	4
Int Rectifier	19⅛	-	2
Zilog	25½	-	3⅜
LONDON (Pence)			
Rises			
Filofax	242	+	19
Goldsborough	174	+	56
Lookers	154	+	12
Falls			
Brit Biotech	2575	-	122
Cham. Phipps	18	-	5
Micro Focus	815	-	55
Scottish Power	304	-	11
TORONTO (C$)			
Rises			
Aber Resources	17.75	+	1.65
Arequipa Res	21.25	+	2.25
Cinar Films A	28.00	+	1.25
Falls			
Gandalf Techs	11.15	-	0.80
Paramount Res	14.00	-	0.75
Teck Corp Cl	28.25	-	1.65
PARIS (FFr)			
Rises			
BIC	716	+	36
St Gobain	683	+	10
Falls			
Credit Local	424.1	-	10.9
GTM-Entrepose	341.0	-	8.9
Seb	909	-	11
Suez	202.0	-	4.8
TOKYO (Yen)			
Rises			
Ando Const.	611	+	13
Hitachi Metals	1280	+	40
Falls			
Brother Inds	684	-	11
Daicel Chem	646	-	10
Daishowa Paper	865	-	19
Okumura-Gumi	931	-	27
BANGKOK (Baht)			
Rises			
Bangkok Union	41.75	+	3.75
Chayen Inv	78.00	+	7.00
Goodyear	358.00	+	32.00
Pacific Ins	62.00	+	5.50
Falls			
Oriental	114.00	-	10.00
Saha Pat	71.00	-	6.00

New York & Toronto prices at 12.30. Hong Kong closed.

Lufthansa shares slide after warning

By Wolfgang Münchau in Frankfurt

Lufthansa, the German airline, warned yesterday that business this year had been unsatisfactory. The statement was seen as signalling a large loss for the six-month period to end-June.

The warnings suggest the much-hailed turnround in the company's financial fortunes has come to an abrupt end. The company suffered heavy losses in 1991 and 1992, returning to profit only in 1994. Last year, Lufthansa made a pre-tax profit of DM756m ($504m).

Shares in the airline fell DM11.20, almost 5 per cent, to DM223.80, on the announcement.

"Price cuts and overcapacity, especially among state-subsidised European air carriers, have resulted in a reduction in the seat load factor. So far, the financial year 1996 has not proceeded satisfactorily for Lufthansa. Traffic data and financial results are, so far, below plan," Lufthansa said.

Lufthansa's statement came in response to an article in Süddeutsche Zeitung, which claimed that Lufthansa had suffered an operating loss of DM200m for the first five months of the year.

Lufthansa yesterday declined to comment on the figure. It said it would make a fuller statement about its operational performance at its annual shareholders meeting on July 3.

Airline analysts were surprised by yesterday's developments. One called the announcement a "Monday shock", while others have downgraded the shares from a buy recommendation to a hold or a sell recommendation.

Mr Hartmut Mörs, analyst at WestLB, the German bank, said the main causes for this announcement were the competitive environment; and the move by subsidised airlines towards lower margins. He said the fire at Düsseldorf airport, which led to the airport's temporary closure earlier this year had also affected the airline.

However, he thought the final six-month figure "will not be as good as one previously expected but not as bad as it is now feared".

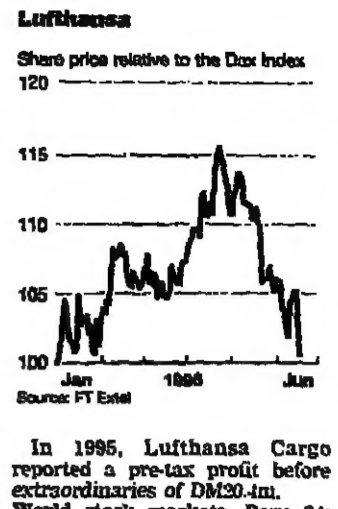
Last month, Mr Jürgen Weber, chairman, criticised subsidies being paid by some European governments to national carriers. He was particularly critical about aid paid to Air France and Iberia, the Spanish airline.

Lufthansa yesterday reiterated its determination to reduce total costs by DM1bn over the next five years as part of Programme 15, an attempt to reduce unit cost per kilometre by 20 per cent to under 15 pfennigs.

In May, Lufthansa said that it had made a DM49m operating loss in the first three months, on turnover of DM4.6bn.

● Lufthansa yesterday said its Lufthansa Cargo unit posted a loss in the first quarter, without giving further details, AFX reports from Frankfurt.

Sales in the period totalled DM788m, down 2.8 per cent from a year earlier. The general weakness in the global economy at the end of 1995 continued into 1996, the group said.



In 1995, Lufthansa Cargo reported a pre-tax profit before extraordinaries of DM20.4m.

World stock markets, Page 34; Expanding Dragonair, Page 16

Outlook for this year marred by weak markets, steelmaker warns

British Steel rises 90% to record £1.1bn

By Stefan Wagstyl, Industrial Editor

British Steel, the UK steelmaker, yesterday reported a 90 per cent increase in annual pre-tax profits to a record £1.1bn ($1.6bn) last year, due to acquisitions and strong demand. However, it warned this year's results would be hit by weak markets in Europe.

Sir Brian Moffat, chairman and chief executive, tried to put a positive gloss on the outlook for the year to next March and predicted that prices, which have fallen by about 20 per cent since last autumn, would begin recovering from September.

However, analysts warned that the steepest decline in European steel prices since the recession of the early 1990s could still have further to run. "The short-term outlook is grim," said one, "and the long-term is uncertain."

Mr Peter Fish, managing director of Meps (Europe), a consultancy, said: "If speedy action is not taken and output is not curtailed, the price slide could continue into 1997. Many mills were hoping that their actions to date [output cuts] would have solved the problem. Unfortunately, we think that this was an optimistic viewpoint. The production curbs, in our opinion, are not yet sufficient."

Sir Brian said that as a low-cost producer, British Steel would still see "satisfactory performance" in 1996-97. The company was also benefiting from the general competitiveness of the British economy, he said.

Sir Brian indicated the company saw last year as the peak of the current cycle, when earnings were buoyed by strong demand and high prices in the first half.

Pre-tax profits were the highest since the £708m achieved in 1989-90, just before the recession pushed British Steel into loss for two successive years.

Sir Brian said stock cutting by producers and steel users had hit prices, particularly in continental Europe, in the second half of last year. But in the UK, British Steel's biggest market, stock reductions were completed and demand would follow the US, where it was recovering fast.

In France and Germany destocking was "finishing off" and would be completed by the end of summer. "Inevitably, however, with the present weakness in market demand in Europe, and the accompanying impact on prices, profits for the current year will be adversely affected but I still expect a year of satisfactory performance."

The recent weakness in the market dates back to last year when prices rose sharply in response to stock shortages and fears of a possible general increase in raw materials prices.

With long-standing over-capacity, western European mills easily met the surge in demand, helped by a flood of imports from eastern Europe. Imports into the EU rose 30 per cent last year, while exports dropped 20 per cent.

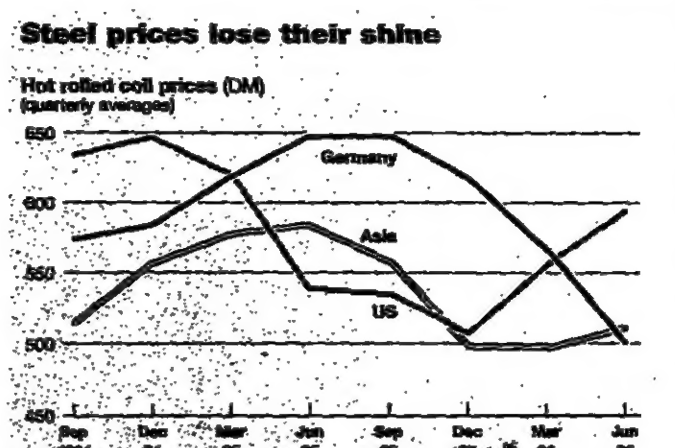
EU producers met demand by diverting exports to the home market and raising output by 4m tonnes to 156m tonnes, according to Eurofer, the European steel industry organisation. Consumption rose to 149m tonnes, up from 135m tonnes, but the figure includes an estimated 10m tonnes of stock-building.

Eurofer warned that "the disproportionate growth of imports from the CIS states and central European countries is a matter of serious concern".

British Steel's profits increase was buoyed by the acquisitions of full control of United Engineering Steels, and of Avesta Sheffield, the stainless steel producer, where British Steel increased its stake to 51 per cent.

Together, these two companies contributed £339m to pre-tax profits in 1995-96, compared with £116m the year before. Setting aside these companies, profits rose 65 per cent to £763m. Overall, turnover increased 47 per cent to £7.05bn. Excluding the acquisitions, turnover rose 10 per cent to £5.25bn.

Lex, Page 14; Details, Page 20



Brian Moffat, British Steel chairman,

Disney to halve film output to 20 titles a year

By Christopher Parkes in Los Angeles

Walt Disney is to halve its film output in what is seen as Hollywood's most significant step to bring supply, demand and quality of movies back into line with market needs.

Although Disney is the first to make a formal announcement of cuts, Viacom, owner of Paramount, earlier this year announced a more "cautious" approach to movie-making. MCA, recently acquired by the Seagram drinks group, last year made hefty write-offs of scrapped development projects.

The reduction at Disney to about 20 films a year was foreshadowed in April when the entertainment group cancelled an unspecified number of half-developed titles at an estimated write-off cost of $60m.

Since then, commercial data have confirmed anecdotal evidence the US industry is heading into trouble.

The number of releases rose 9 per cent last year to 426 films, production and marketing costs rose more than 10 per cent, while box office receipts in the core North American market rose only 1 per cent.

At the same time, the hunt for hit-making star names intensified with movie contracts worth $20m – more than a third of total average production costs – offered to the likes of manic comic Jim Carrey.

"This is the first positive move from the industry in a long time," said Ms Jessica Reif, a senior analyst at Merrill Lynch. Other studios would have to follow suit because it was the only action which could avert disaster, she added.

"The only surprising thing about Disney's write-downs was that they weren't bigger," she said, referring to the projects cancelled in April.

Mr Joe Roth, head of Disney Studios, said at the weekend: "I don't see the quality of screenplays and stories and marketing . . . and economics justifying 40 films a year."

Some observers saw the cuts as an admission that Disney's strategy of bludgeoning the competition with cheap and cheerful volume had failed. It was also viewed as an effort to sharpen its focus on family entertainment while rejoining the mainstream in adult entertainment.

Its latest release, *The Rock*, an action adventure starring Sean Connery, is untypical of Disney in that it features big name actors. It has grossed $60m after less than two weeks on release and is already marked as one of the season's successes. A live-action version of *101 Dalmatians*, due later this year, will be supported and exploited with a range of consumer products and theme park gimmicks.

The Disney tactic is the first big change since Mr Roth was appointed studio head 18 months ago. The tightening of Mr Roth's grip on movie-making at Disney is underscored by plans to consider closing Hollywood Pictures, a subsidiary devoted to low-budget light entertainment.

The once-independent heads of Touchstone Pictures and Walt Disney films, Mr Donald DeLine and Mr David Vogel, will join Mr Roth at the head of a slimmed management group.

Goldman Sachs doubles to $709m in second quarter

By Lisa Bransten in New York

Goldman Sachs, the last big privately held investment bank on Wall Street, yesterday posted its third strongest quarterly earnings ever for the second quarter ended May 31.

Pre-tax profits were $709m, up 25 per cent from $565m in the first quarter and more than double the $346m it made in the corresponding period last year when Wall Street began to bounce back from the difficult market conditions of 1994.

The results mark Goldman's sixth consecutive quarter of earnings growth after a rocky period of falling profitability and even quarterly losses in 1994 that followed the firm's best year ever.

Goldman's best quarterly performance was the third quarter of 1993 when it made $928m.

The earnings growth in the second quarter of this year came from "across the board strength" in banking, equity and bond divisions, said Mr John A. Thain, Goldman's chief financial officer.

Mr Thain was cautious about the firm's results until the end of this year. "Our results are highly dependent on US financial markets," he said.

Goldman's results may presage a strong second quarter across Wall Street where many analysts expect booming activity in mergers and acquisitions and public offerings to offset challenging conditions in bond markets.

Ms Sallie Krawcheck, who follows the securities industry for Sanford C. Bernstein, the Wall Street investment bank, expected second-quarter results at the main brokerages to be in line or somewhat better than those seen in the first quarter despite a rise in US interest rates.

"Interest rates have gone up so companies have not issued as much debt but they've been issuing more equity," she said. "The conventional wisdom is that when rates go up earnings [at the investment banks] go down and I'm not so sure that still holds these days."

Goldman's earnings came on revenues net of interest of $1.67bn, compared with $1.46bn in the first quarter, with expenses rising 7 per cent to $961m from $899m. Equity capital stood at about $5.2bn.

Earlier this year, partners at the firm decided against going public to raise new capital, but last month they voted to convert the partnership to a limited liability company.

AsiaSat draws heavy HK demand

By John Ridding in Hong Kong

The flotation of Asia Satellite Telecommunications has been strongly backed by Hong Kong investors, with the tranche allotted to the territory oversubscribed 100 times, the satellite consortium announced yesterday.

AsiaSat is owned in equal parts by three companies with telecoms interests: Cable and Wireless of the UK, Hutchison Whampoa of Hong Kong and Citic, the Chinese flagship investment vehicle. The three have been with AsiaSat since its inception in 1988 and have drawn no dividends in that time.

Giving details of the Hong Kong issue, which represents about one-tenth of the HK$2.1bn (US$271m) flotation, AsiaSat said the strength of demand would mean a reallocation of 5.26m shares from the North American and international offerings.

Altogether, 105.3m shares, or about 27 per cent of the capital, are to be sold as part of the flotation in New York and Hong Kong. But a further 15.79m may be offered in case of excess demand in the North American and international offerings.

AsiaSat said subscription levels for these tranches would be announced shortly. Market sources claimed, however, that these issues would also be heavily subscribed. Trading is due to start in the US today and in Hong Kong on Wednesday.

The strength of demand reflects the buoyant market for satellite capacity in Asia as a result of strong expansion in broadcasting and telecommunications. "We are seeing steady growth in demand from traditional players such as the big telecoms operators, but also from emerging players and media companies," said a Hong Kong telecoms analyst.

Under the terms of the offer, lead managed by Goldman Sachs, 105.3m shares will be offered by C&W and Citic. Hutchison is not selling shares in the offer, but has put and call options with Citic. If these are exercised, it will sell part of its holding to Citic and both will end up with an equal stake in AsiaSat.

AsiaSat owns and operates two satellites, both of which were launched by Chinese rockets. AsiaSat 3, due to be operational late next year, is to be launched by Russia's Proton system. A further satellite is due in 1999.

Japan Tobacco share offering priced

By Emiko Terazono in Tokyo

The price for the second offering in shares of Japan Tobacco, the country's sole tobacco company, has been set at Y815,000 a share, representing a 3.1 per cent discount on yesterday's closing price of Y841,000 a share. The sale will raise about Y222bn ($2.04bn).

The ministry of finance will this week offer 272,390 shares which remained unsold at the company's initial public offering in 1994, when it offered 666,666 shares, or one-third of the ministry's holding, at Y1.44m a share. Of the second tranche, 35,000 shares will be sold overseas.

The government said expressions of demand for the stock were greater than expected, but with the price set lower than the stock's close yesterday, it could prompt further selling on the Tokyo stock market.

The government conducted its first "bookbuilding" for the JT offer, setting the price after canvassing investors for potential demand. The move was a response to increasing criticism of the auction method used to fix the offering price in previous share sales. The auction method – where the price was fixed after an auction among domestic institutional investors – has tended to make the share price fall on the stock market.

Fears of over-supply have depressed JT stock since Nomura Securities and Goldman Sachs International, the UK arm of the US investment house, started listing preparations. The shares have fallen 9 per cent this month.

The announcement comes as the government seeks to release stocks of other state-owned companies to increase its revenue. The ministry of finance still owns two-thirds of Nippon Telegraph and Telephone, the telecommunications group, while the ministry of transport wants to list the railway companies created in 1987 when Japan National Railways was broken up.

Of the six railway groups awaiting privatisation, West Japan Railway (JR West), the second largest of the seven companies, yesterday said it had filed its listing application with the country's stock exchanges.

East Japan Railway (JR East) was listed in 1993, but the ministry was forced to postpone further listings because of a sluggish stock market. In 1995, JR West was unable to meet listing criteria because its earnings were hit by damage caused by the Kobe earthquake.

JNR Settlement Corporation, to which the debt, stock and land of the former JNR has been shifted, holds all 2m shares in JR West. It says it plans to list the company later this year, but a date has not been set.

Despite the Tokyo stock market's recent strength, some investors fear the recovery is not sufficiently strong to bear a deluge of new equity.

In addition, the government's poor track record on share offerings does not help investor confidence. The JR East listing in 1993 caused the Tokyo stock market to fall sharply, while the JT offering also raised fears of over-supply and triggered heavy selling.

Investors sold stocks of state-owned companies on the Tokyo stock market yesterday, with JR East down Y1,000 to Y589,000 and NTT declining Y9,000 to Y806,000.

Excise dispute forces dividend cut at ITC

By Kunal Bose in Calcutta

ITC, India's largest tobacco group in which BAT, of the UK, has a stake of almost 32 per cent, yesterday announced an increase in pre-tax profits but a sharp cut in its dividend. The lower dividend was in part the result of an ongoing dispute over excise payments.

ITC has also resolved some of its disputes with BAT, which has resulted in management changes.

Pre-tax profits rose to Rs4.52bn ($129.5m) in the year to March 31, from Rs4.02bn a year earlier. But a much higher provision for tax, pushed net profits down from Rs2.62bn to Rs2.61bn, while sales rose from Rs47.08bn to Rs51.99bn. Many analysts had forecast net profits of more than Rs3.5bn, and ITC shares closed Rs24 lower at Rs301.

The dividend is being cut to Rs2.5 a share from last year's Rs5. ITC blamed the reduction on a Rs1.7bn deposit left with the country's excise authorities, related to a dispute.

India's Commissioner of Central Excise claims the company and its contract manufacturers had not paid excise duty totalling Rs7.99bn for the period January 1 1983 to February 28 1987. The company has filed an appeal against the order. The authorities, however, have directed the company to deposit, in instalments, Rs3.5bn of excise duty by January 1 1997.

Costs associated with restructuring the agribusiness and international operations also influenced the cut in the payout.

The company recorded strong growth in its core business of cigarette and tobacco. But the recession hit its speciality paper business. Foreign exchange earnings amounted to nearly Rs10bn.

It said business so far this year "was strong and well ahead of the previous year".

Mr Yogesh Chander Deveshwar, who became chairman in January despite strong opposition from BAT – but with the backing of Indian financial institutions which own 38 per cent of ITC – has been able to win BAT's confidence, according to company sources.

With tacit support from BAT, Mr Deveshwar initiated a management restructuring last week which gave the audit department "independence and autonomy". The company also created two new posts of financial advisers "who will provide support to all the executive directors".

According to company sources, BAT will now have the assurance that there will be an effective check on all financial transactions.

Three of the nine executive directors will be retiring in the near future, and Mr Deveshwar has begun reallocating roles.

One change involves Mr Saurabh Misra, deputy chairman and regarded as a BAT favourite. He has been made responsible for guiding the paper, agribusiness, international trade and printing and packaging divisions, on top of his current responsibilities for tobacco and leaf tobacco divisions.

Beijing pilots Dragonair to clearer skies

CNAC's involvement, plus freedom from Cathay Pacific, should benefit the carrier

Proof that expansion at Dragonair, Hong Kong's ambitious second carrier, would gather momentum after it came under mainland control has not taken long to materialise.

Last week, days after the new share ownership structure was approved, Dragonair secured an additional five routes in China and more in Taiwan.

As part of a landmark Hong Kong-Taiwan air services pact, it secured an agreement to operate 21 flights a week on the route between Hong Kong and Taiwan's southern port city of Kaohsiung. This route is said to be the fifth busiest flown by Cathay Pacific, the colony's de facto flag carrier and erstwhile parent of Dragonair.

The agreement, held up for almost a year by three-way political wrangling – Beijing, Hong Kong and Taiwan all having their own agendas – came days after China tightened its grip on Dragonair.

The combination of these two events suggests the carrier is on course for rapid expansion and will increase interest in its flotation, planned for later this year or early 1997.

Under the shareholder restructuring, China National Aviation Corporation (CNAC), the commercial arm of China's aviation regulator, obtained a 36 per cent stake in Dragonair for HK$1.97bn (US$254m). Another 28.5 per cent is owned by Citic Pacific, the Hong Kong arm of Beijing's main investment vehicle.

For Dragonair, long the preferred passenger carrier for flights into the mainland, having CNAC on board is seen as a big plus. Dragonair now flies to 14 cities in China, and last week's agreement increases the likelihood that further destinations will follow now that the mainland aviation regulator is a shareholder.

Moreover, analysts see growth opportunities across the fast-growing Asia-Pacific region, now Dragonair is out of Cathay Pacific's pockets.

Cathay Pacific, with Citic Pacific, swooped on Dragonair in January 1990 and has since managed it as a complementary airline. Until then it had been a vigorously independent Hong Kong carrier.

Now Cathay Pacific and its parent Swire Pacific have cut their stake from 43.16 per cent to 25.5 per cent, with the result that Cathay can no longer carve up the spoils and Dragonair may itself apply for new routes.

Mr Declan Magee, analyst with HG Asia in Hong Kong, notes: "Sovereignty is changing [Hong Kong reverts to China in June next year] and it may be difficult to say 'no' to China-backed requests for new routes. Given there's no-one batting for Cathay Pacific's interests, I imagine Dragonair will have a lot more implicit power in terms of being favoured ahead of Cathay Pacific."

Lucrative routes include those between Hong Kong and Taipei, Tokyo and Singapore but, as Ms Eisha Cheng, aviation analyst at Lehman Brothers in Hong Kong, points out, the heavily regulated environment means most routes within Asia are high-yielding and profitable.

To date, the colonial government has operated a general policy of one airline, one route. The government recently told legislators the rule would be reviewed "only in circumstances where it was judged that more competition was needed in the public interest and that the traffic was sufficient to sustain operation by more than one Hong Kong airline". The incoming administrators, however, may well take a different view.

Mr Koo Zayong, aviation analyst at CS First Boston in Hong Kong, says: "In other countries we have seen a lot of second national carriers coming up and sharing some of the profitable routes, so I believe that is probably what's going to be happening here. It will definitely help consumers, and it will push for airlines to become more efficient."

Even based on Dragonair's existing routes, the company's forthcoming share issue has its fans. "We're unlikely to see the investment bankers price this one too low. It has a lot of potential to expand its business in China," says Mr Francis Wong, a fund manager at IDS Fund Management, a wholly owned subsidiary of American Express.

The market is looking at a prospective price earnings ratio of 12-15 times, which could value the airline at HK$13bn-HK$14bn. CNAC obtained its stake for only 7.2 times historic earnings, on Mr Magee's calculations: he is forecasts net profits of HK$912m this year, up from last year's HK$722m.

The obvious benchmark for pricing is Cathay Pacific, now trading on a p/e multiple of 14 times historic earnings. Many assume Dragonair will be priced at a premium to Cathay – reflecting its greater growth potential, which comes at the expense of Cathay Pacific.

Possible problems for the airline include likely changes in management and among employees, as those seconded by Cathay return. But CNAC's aggressive recruitment drive before the shareholding restructure – when it still nurtured its own ambitions to set up in Hong Kong – will fill a lot of the gaps. In addition, further executive personnel may be poached from other corporates.

The timing means the float will be against a background of improving fortunes in the world aviation market. In any event, it will give investors an opportunity – which has eluded them in the past – to buy into China aviation. China earmarked two of its carriers, China Eastern and China Southern, for overseas listings more than two years ago but both flotations have failed to materialise.

As Mr Magee, at HG Asia, says: "If you have got the regulator in the driving seat, so to speak, you are going to have lots of routes open to Dragonair at a time when the new – and bigger – Hong Kong airport is coming on stream."

Louise Lucas

Petronas chief targets Africa for expansion

By James Kynge in Kuala Lumpur

Petronas, Malaysia's state-owned oil company, plans to use its proposed purchase of a 30 per cent stake in Engen, a South African oil refining and marketing concern, as a "beachhead" for expansion into the African continent.

Mr Hassan Marican, Petronas president, said yesterday the prospective partnership was likely not only to expand the group's oil sales but would facilitate growth through joint ventures or by other means in Africa.

"We have been interested in the African continent. Engen, being close to Africa, will know the business," Mr Hassan said. "South Africa will provide us with a beachhead into the African continent."

Initially, for example, the new partnership will expand the number of petrol service stations from the 84 which Engen runs outside South Africa, in Botswana, Namibia, Lesotho and Swaziland. Further growth may come from new refining joint ventures and exploration projects in the African and Indian Ocean rim, executives said.

The planned purchase, estimated to cost about US$436m, is ground breaking in many senses. It is the biggest foreign investment in South African history and the largest yet by the Malaysian company. Petronas is to become the biggest single shareholder in Engen, will occupy two seats on its board, and be included in all important decisions.

Petronas said South Africa's appeal was that its market is not dominated by large multinational groups and domestic demand for oil products is growing at between 5 and 8 per cent a year.

Engen, which was courted by Mobil Oil of the US and France's Elf Aquitaine, chose Petronas as its partner because the highly profitable Malaysian company is wealthy enough to finance ambitious growth, but not so big as to subsume the South African company, according to Petronas.

Analysts said clear synergies existed between the two partners. Petronas, which had net profits of M$4.56bn (US$1.83bn) in the year ended March 31 1995, is a significant upstream oil and gas producer with investments in several parts of Asia, but which wishes to project itself further afield.

Engen owns the second-largest crude oil refinery in South Africa with a capacity of 105,000 barrels a day, and has a network of 1,350 service stations.

In Asia, Petronas is poised for considerable growth as it builds an infrastructure to process and sell more widely an average output of 630,000 b/d of oil.

It is due to increase refining capacity in Malaysia to 240,000 b/d in 1997-98 from a current 140,000 b/d, following the construction of a third refinery.

ING Australian unit in bid for Pacific Mutual

By Nikki Tait in Sydney

Mercantile Mutual, the Australian insurer owned by the Netherlands-based ING group, is making a A$98m (US$77.6m) bid for Pacific Mutual, the listed Sydney-based financial services group.

Pacific Mutual embraces life insurance, pension-related and fund management operations, and spans Australia and New Zealand. Its products, which include property trusts, are generally marketed in Australia under the Armstrong Jones name. Funds under management stand at about A$2bn.

The group was known to be a likely takeover candidate after MMI, another quoted Australian insurer, said in January that it no longer wished to remain a strategic shareholder. MMI holds more than 30 per cent of Pacific Mutual's shares.

Shortly after that announcement, MMI called in BZW Australia to advise on how this stake might be disposed of.

Pacific Mutual said in a statement to the stock exchange yesterday that, while Mercantile Mutual had been one of the companies which had done "due diligence" as a result of MMI's decision, "Mercantile Mutual decided not to make an offer under the tender process and elected instead to make a conditional offer for all of the shares".

Directors of Pacific Mutual said that they would be accepting the Mercantile Mutual offer in respect of their own holdings, unless a higher offer were forthcoming. However, MMI said only that it would wait to see the formal offer documents before making a decision on its 30.2 per cent holding. The offer is conditional on 90 per cent acceptance.

At the end of March, Mercantile Mutual had about A$9bn under management, and has a declared interest in raising this figure.

The ING subsidiary has already surfaced as one of the possible bidders for both Commonwealth Funds Management, the fund management unit owned by the federal government but a likely privatisation candidate, and the New South Wales State Super operation, which the state government has said is for sale.

State Super, which handles civil servants' pension funds, has about A$17bn under management, while CFM controls about A$8bn.

The Mercantile Mutual offer is pitched at A$2.30 a share in cash, plus a special dividend of 10 cents a share. Pacific Mutual shares rose two cents to A$2.32 on the news, while MMI eased seven cents to A$3.18.

Sony set to introduce high-end home PCs in US

By Michiyo Nakamoto in Tokyo and Louise Kehoe in San Francisco

Sony, the Japanese consumer electronics manufacturer, was poised to announce its entry to the US home computer market yesterday evening in New York, with the introduction of two personal computers.

The home PCs will be powered by Intel's top-performance 200MHz and 166MHz Pentium chips, and Sony said the machines would incorporate high-quality sound and graphics for multimedia applications as well as a modem for Internet access. Prices are expected to range from $2,000 to $3,000.

The machines will be the first product of a technology and manufacturing alliance between Sony and Intel announced in November last year.

Intel will supply motherboards, the main circuit boards, for the Sony PCs, which will be sold through consumer electronics stores in the US. Sony has yet to decide whether to offer the PCs in Japan and Europe.

With dark-coloured cases, in the style of consumer electronics products, the Sony PCs are designed to compete at the high end of the consumer PC market.

Although the machines are more expensive than most home PCs, industry analysts said the Sony brand name and design would give the new PCs a broad appeal. In particular, analysts expect them to compete with the top end of Apple Computer's range of home PCs.

Analysts in Japan said the PCs were unlikely to become core profit-earners for Sony, but would enable it to gauge where it should focus its energies in developing a cheaper, mass-market PC.

"This is likely to be the first step in a long process of moving the PC from the office to the home," said Mr Hideki Watanabe, industry analyst at Nikko Research Center in Tokyo. He said Sony's success in making that transfer would depend on what innovations it made.

The company has a good record of providing new, attractive features, reflected in the success of its PlayStation, the 32-bit video games machine. Mr Reinier Dobbelmann, industry analyst at SBC Warburg in Tokyo, said Sony was quite likely to bring features to the PC that would sufficiently differentiate its products from those offered by computer makers.

NEWS DIGEST

Reshuffle at Dairy Farm International

Dairy Farm International, the food retailing arm of Singapore-listed Jardine Matheson, yesterday unveiled a management reshuffle in which Mr Chris Nelson will step down from the top post in Asia. The new finance director is Mr Edouard Ettedgui, who is now business development director with British American Tobacco Holdings, a subsidiary of BAT Industries of the UK.

Mr Nelson will move to Europe as regional director (Europe), a new position, and assume responsibility for the loss-making Spanish chain, Simago, which was acquired by the company in May 1990. Mr Tim Westinghouse, the group's chief financial officer, will become director of Dairy Farm Asia, complementing a line-up of four directors with Asian portfolios who were appointed last September.

Asia is the engine of the group, accounting for some 44.7 per cent of trading profits last year, while Europe turned in a loss. The company has been performing poorly in recent years, partly because of management's failure to keep abreast of the competition. Speaking at last week's annual meeting, Mr Simon Keswick, chairman, forecast another tough year, citing intense competition in the retail sector. Mr Graeme Seabrook, managing director, said the appointments would strengthen the group's management in the key areas of Asia, Australasia and Europe. *Louise Lucas, Hong Kong*

Toshiba sets PC sales targets

Toshiba, the Japanese electronics group, expects personal computer worldwide sales of 2.4m units for the year to March 1997. Of this total, Toshiba said it expected domestic PC unit sales to be as much as 650,000 units. Toshiba said it had set a sales target for its newly launched notebook-type PCs of 30,000 units a month.

The company also said it would launch sales of desktop-type PCs in overseas markets from the autumn, to enter the overseas desktop PC sector. "We will initially start selling desktop-type PCs in the US and then Europe," the company added. Toshiba added that it would launch sales of PCs equipped with digital video disc read-only-memory chip drives in Japan by the end of 1996.

Toshiba said that in the January-March quarter of 1996, the company raised its share of Japan's notebook PC market to 13.5 per cent, from 9.2 per cent in 1995. Its share of the US notebook PC market rose to 25.7 per cent in the quarter from 20.7 per cent. In Europe, Toshiba's share of the laptop PC sector reached 24.8 per cent, up from 18.1 per cent in 1995. Toshiba said it aimed to be fifth in the PC market worldwide in 1998. It was placed seventh in 1995. *AFX-Asia, Tokyo*

Australian casino group in loss

The slowdown in Australia's expanding casino industry was confirmed yesterday. The listed Reef Casino Trust, which developed the new casino in Cairns, Queensland, announced it had suffered a loss after interest, but before depreciation and amortisation, of A$2.2m (US$1.7m) in February and March, its first two full months of operation. By the end of May, the deficit had been reduced to about A$125,000.

The trust said that, as far as general gaming was concerned, visitor numbers had "considerably exceeded" forecasts made in its prospectus, but that the spend per person had been less than forecast.

A similar pattern had been seen in the food and beverage areas. It added it was confident that, as Cairns moved into its "high tourist season", improvements would follow. However, there will be no distribution to unitholders for the period to the end of June.

Australia has seen a sharp expansion in gaming facilities – notably casinos – in the past few years, and analysts have warned that the market may now be oversupplied and ripe for some rationalisation. Reef shares eased two cents to 83 cents. *Nikki Tait, Sydney*

CBA retail offer opens

The retail segment of the A$4bn (US$3.17bn) sale by Australia's federal government of its remaining shares in Commonwealth Bank opened yesterday. The authorities said more than 250,000 requests for offer documents had been received. The retail offer will last until July 5, with the institutional offer taking place the following week. The price of the shares – which will be due in two instalments – will be set shortly afterwards. CBA shares added 10 cents to A$10.35, in a generally stronger bank sector. *Nikki Tait*

Mediaset chief says float will fund growth

By Andrew Hill in Milan

The chairman of Mediaset, Mr Silvio Berlusconi's media company, claimed yesterday the group's forthcoming flotation would help "democratise" the Milan stock exchange, and fund further expansion in new markets and sectors.

Up to 95m Mediaset shares – about 8 per cent of the company – will be sold to the Italian public, which is being wooed by advertisements in the press, by posters, and on Mediaset's own television channels. A further 8m of the 253m shares available will be reserved for employees, and the rest for institutional investors. The operation will value the group at between L7,000bn and L8,300bn ($4.5bn–$5.4bn), making it one of Italy's largest quoted companies.

Fininvest, Mr Berlusconi's family holding company, will reduce its stake in Mediaset from 71 per cent to just under 50 per cent, if minority shareholders' options to buy more shares are exercised. The price will be set on June 29 at between L6,000 and L7,200 a share. Trading should start in Milan and on London's Seaq International on July 15.

About half the shares for the flotation will come from a capital increase. At yesterday's launch of the investment roadshow, Mr Fedele Confalonieri, chairman of Mediaset, said the group could use part of the proceeds to expand its television interests in Spain and Latin America. Mediaset has an option to buy Fininvest's 25 per cent stake in Telecinco, the Spanish TV network, and related media activities at a favourable price.

Mr Confalonieri also pointed to the potential of Mediaset's alliance with British Telecommunications and Banca Nazionale del Lavoro. He confirmed they would be part of a consortium to bid for Italy's third mobile phone licence later this year.

Mediaset management and advisers have spent the last few weeks insulating the company from the deepening judicial inquiry into Fininvest's affairs.

Yesterday, the chairman also reassured potential investors Mediaset would not lose one of its three commercial television channels. The Italian parliament is supposed to present a new plan on media ownership by late August – if it interprets a 1994 constitutional court ruling strictly, Mediaset and RAI, the state broadcaster, might each have to give up one of their three channels.

However, Mr Confalonieri reminded journalists yesterday that Mr Massimo D'Alema, leader of the former communist PDS, had told Mediaset employees at a meeting before the April election that they had nothing to fear. PDS and its allies won the election. "I think that now Mediaset, and the group's television networks, are considered by everyone as part of the country's heritage," he said.

Deutsche Babcock warns of heavy operating losses

By Michael Lindemann

Deutsche Babcock, the German engineering group struggling to restructure many of its loss-making activities, yesterday warned it expected operating losses of up to DM300m ($197m) for the current year, which ends on September 30.

The company announced restructuring plans, involving the disposal of businesses with combined sales of DM1.6bn, in February. However, it had declined to specify the cost of the overhaul.

Deutsche Babcock said it was still too early to say whether it would report a net profit or loss for the year. This was because a number of units were due to be sold and several other measures had been taken to streamline operations.

The group reported a net loss of DM46m last year, and sent a letter to shareholders with its recent six-month results which analysts described as "very depressing".

The Oberhausen-based group said it was looking for buyers for Magdeburger Armaturenwerke, a unit making industrial fittings, and for Kugelhahn, a Berlin-based company specialising in valves for heavy pipes.

The electro-engine business of Flender, another subsidiary, is also for sale.

As part of efforts to cut costs, Mr Heyo Schmiedeknecht, chief executive, said the size of the group's *Vorstand*, or management board, would be reduced from six to "three or four", and the number of people working at the holding company which oversees Deutsche Babcock's myriad businesses, from 130 to 90.

The remaining members of the management board would no longer be involved in the operations of the group's subsidiaries, enabling them to make clearer decisions, Mr Schmiedeknecht said. "With the new management structure we will be able to resolve conflicts more cleanly," he told the Frankfurter Allgemeine newspaper.

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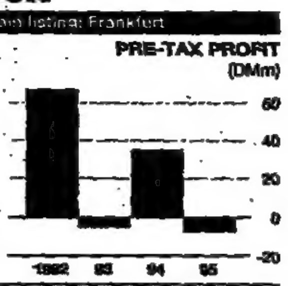
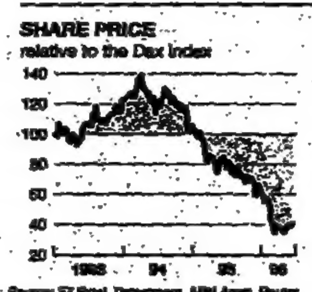
PROFILE:

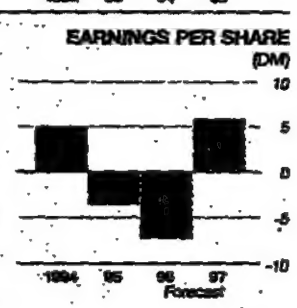
DEUTSCHE BABCOCK

Market value: $4[illegible]m — Main listing: Frankfurt

Historic P/E	n/a
Gross yield	0%
Earnings per share (1995)	DM-4.0
Current share price	DM96.5







Source: FT Extel, Datastream, ABN Amro, Reuter

Czech energy group loses chief financial officer

By Vincent Boland in Prague

Mr Gabriel Eichler, chief financial officer of CEZ, the Czech energy utility, is to step down shortly to pursue other business interests. Mr Eichler said yesterday his resignation had been accepted by the CEZ supervisory board effective from June 30, but he may remain longer to ensure a smooth transition. "My aim is to leave, but it is a question of when," he said.

Mr Eichler, finance chief since April 1994, has been closely identified with a financial restructuring at CEZ that won it post-communist eastern Europe's first investment grade rating for an industrial company. The revamp and the rating combined to reduce the the cost of its heavy borrowings.

The market shrugged off news of Mr Eichler's move, with CEZ shares rising sharply in a generally strong market. But analysts were disappointed, saying CEZ might have difficulty finding a replacement. "It's definitely a pity – he was one of the most capable people at CEZ. It will be quite difficult to find a replacement," said Mr Miroslav Nosal of the investment bank, Patria Finance. No successor was immediately announced.

Mr Eichler, who is also CEZ deputy chairman, was the main link between the company and its bank lenders and investors. CEZ, the biggest Czech borrower, is undertaking a Kc130bn ($4.6bn) investment programme to cut pollution at coal-burning plants and complete a nuclear power plant with Westinghouse, the US group.

Some analysts said Mr Eichler's decision may reflect frustration at the slow pace of electricity price liberalisation, a sensitive political issue and one which may be delayed further following the inconclusive outcome of general elections earlier this month.

Mr Eichler, a former chief international economist at Bank of America, said he had declined an offer to remain at CEZ for another four years because he wanted to pursue other interests. He is a co-founder of Benson Oak, a private investment advisory firm in Prague that recently hired several executives from the investment bank J. P. Morgan.

Standard & Poor's, the credit rating agency, on Friday raised its rating on CEZ and its $150m eurobond from BBB to BBB-plus, reflecting the success of its investment programme and its negotiation of long-term power supply agreements with regional distributors.

Deutsche Telekom supervisory head quits

By Michael Lindemann in Bonn

Deutsche Telekom, which is due to engineer Germany's biggest stock exchange listing later this year with a DM15bn ($9.8bn) share issue, is losing the long-standing head of its non-executive supervisory board.

Company executives and industry insiders admitted yesterday they were "surprised" by the decision of Mr Rolf-Dieter Leister to leave. The company announced yesterday he would step down on July 1, citing personal reasons.

However, the repercussions of his departure are expected to be short-lived. Officials in Bonn said a successor had already been appointed and was likely to be announced later this week.

Mr Leister, 55, a former head of the German operations of International Business Machines, has been advising the state-owned company since 1983. Deutsche Telekom said a further five-year term as head of the *Aufsichtsrat*, or supervisory board, "did not fit in with his personal and professional plans".

Before Deutsche Telekom became a joint stock – or public limited – company early last year, special legislation covering the German postal and telecoms services meant Mr Leister's position as head of the supervisory board made him more powerful than his counterparts at other companies. He had more influence on strategic decisions and the appointment of top executives.

However, since 1995 his job has been a more passive supervisory role, with management control now in the hand of Mr Ron Sommer, chief executive, who came from Sony, the Japanese electronics group.

Mr Leister, meanwhile, holds a number of other advisory positions across the German telecoms industry and is likely to move into consultancy work. "He may have been wondering whether his job at Deutsche Telekom was worth all the bother," one industry executive said.

NEWS DIGEST

KPN lifts holding in GD Net to 54%

KPN, the privatised Dutch posts and telecoms utility, is expanding its interests in the international courier and express delivery market by becoming the largest shareholder in GD Net, which co-owns TNT Express Worldwide with TNT of Australia. Amsterdam-based TNT Express Worldwide claims European market leadership in express delivery services.

KPN said its PTT Post division would hold 54 per cent of GD Net, up from 18 per cent, while the remainder would be owned by Sweden Post, which previously had 15 per cent. This ends a four-year arrangement under which control was shared among five national mail utilities. La Poste of France, Deutsche Post and Canada Post are to sell out at an undisclosed price, but will retain operational links with TNT Express Worldwide. KPN said it and Sweden Post wanted to create a much more decisive ownership structure for GD Net. "The move shows that PTT Post is one of the most entrepreneurial and dynamic of European postal businesses," said Mr Jonathan Lee of James Capel in London."

Gordon Cramb, Amsterdam

Renault to sell valve plants

Renault, the French motor vehicle manufacturer, plans to sell two valve plants to TRW, the US automotive parts and aerospace group which is reported to be interested in a strategic stake in Valeo, the French components company. Under the proposal, Renault would convert the plants, which employ about 500 people, into subsidiaries by the middle of next year, with TRW acquiring a 49 per cent interest. Renault will retain a majority stake in the ventures for an initial transition period, but the company said yesterday they could be completely divested within two years.

Renault explained the move by referring to heavy research and development costs and the need to shorten design time cycles. US and European vehicle makers are handing the development and manufacturing of complete sub-assemblies to specialists. TRW said the two companies were "still negotiating".

David Owen, Paris

Volvo drugs stake plan filed

Pharmacia & Upjohn Inc, the US subsidiary of the London-based drugs group, has filed a registration statement notifying the US Securities and Exchange Commission of Volvo's intention to sell most of its 13.8 per cent stake in Pharmacia & Upjohn, the Swedish automotive group said. Volvo has appointed Goldman Sachs and Merrill Lynch in connection with the registration.

AFX News, Stockholm

Berry keeps Danzas fight alive

Mr Nicholas Berry, chairman of the Stancroft Trust investment company, said yesterday he would continue to fight for shareholder interests in Danzas, the Swiss freight forwarder, despite his failure to be elected to the board at last Friday's annual shareholders' meeting. Mr Berry, who plans to keep his 2.5 per cent stake in the company, has campaigned for policy changes to boost shareholder value. On Friday, despite the opposition of the Danzas board, nearly a fifth of shareholders voted for the candidacies of Mr Berry and Sir Michael Edwardes, former chairman of British Leyland.

Frances Williams, Geneva

■ Metsä-Serla, the Finnish forestry group, says it may sell its chemicals division. The division accounts for around 4 per cent of company sales.

AFX News, Helsinki

COMPANIES AND FINANCE: THE AMERICAS

Compaq to launch broad range of laptop PCs

By Louise Kehoe in San Francisco

Compaq Computer aims to get back to its roots as one of the first manufacturers of portable personal computers, with the introduction of a broad new range of laptop PCs.

Compaq led the market for portable PCs in the 1980s, but has lost its market leadership to Toshiba and other manufacturers of laptop computers in recent years.

The company's new Armada models represent "the launch pad for the re-emergence of Compaq's business heritage", said Mr Michael Winkler, senior vice-president and general manager of Compaq's portable PC division, who joined the company seven months ago.

Over the next 12 months Compaq will add products in every category of the portable PC market, including hand-held "Mobile Companion" products, Mr Winkler said.

The company yesterday unveiled an aggressively-priced standard laptop PC, based on Intel's 100MHz Pentium chip, that will sell in the US for $1,899. That is about $400 cheaper than the equivalent Toshiba product, Compaq said.

Compaq also introduced a new line of ultra-thin laptop PCs weighing only about 5 lbs (2.25kg) that feature special "bays" to accommodate extra batteries, disk drives and other peripherals and added new high performance models designed for use in business presentations.

"We want to regain the number one position in portable computing over the next 18 months or so," Mr Winkler said.

● International Business Machines will today announce its re-entry into the market for low-end computer printers, five years after it withdrew from the business by spinning off its printer division. With the March expiry of a five-year agreement not to compete with its former division, now called Lexmark International, IBM is keen to return to the high-growth segment of the $8bn market for PC printers.

IBM will announce four printers with speeds of up to 24 pages a minute. The products will compete directly with printers from Lexmark as well as with those of Hewlett-Packard, the market leader.

IBM will distribute the new printers through retail outlets that carry its PCs as well as through its direct sales force. Pricing will be "very competitive", IBM said, although prices have yet to be announced.

Lexmark, in which IBM retains a 6 per cent holding, will continue to distribute printer supplies to IBM customers.

Sony to launch PCs in US; Toshiba sales target, Page 16

Loewen expands with US buy

By Bernard Simon in Toronto

Vancouver-based Loewen Group, the fast-growing funeral home operator, has teamed up with Blackstone Group, the private New York investment bank, to buy Prime Succession, the biggest privately-owned funeral business in the US, for US$295m.

Blackstone's involvement stems from the strains imposed on Loewen by a $175m out-of-court settlement which the Canadian company reached earlier this year with Mississippi's O'Keefe family over a breach of contract dispute.

Blackstone will pay $48m, mostly for common shares, in the joint venture, while Loewen's investment will be $72m, mainly for preferred shares. The venture plans to raise debt to cover the rest of the purchase price. Loewen has an option to buy out Blackstone after four years.

Mr Paul Wagler, Loewen's senior vice-president for finance, said that Loewen wanted to keep the transaction off its balance sheet at a time when its shares were still recovering from the shock of the Mississippi settlement, which was preceded by a jury award of $500m in damages.

Loewen has raised sizeable amounts in debt and equity in recent months to pay for the settlement and to fund its aggressive expansion drive.

Loewen shares climbed C$1.20 to C$40.80 in early trading on the Toronto stock exchange yesterday. However, they remain well below the record C$56 reached before news of the Mississippi judgment broke.

The jury award threatened to push Loewen into bankruptcy protection. Since the settlement, however, the company, which is North America's second-biggest funeral operator, has renewed its acquisition drive.

It has agreed to purchases valued at $540m so far this year. But Mr Wagler said Loewen planned to be "very tight" about issuing further equity.

The Prime Succession deal will expand Loewen's business by about 15 per cent.

Western lifts Kansas City offer

By Richard Tomkins in New York

Western Resources, the Kansas-based energy company making a hostile takeover bid for Kansas City Power & Light, a utility operating in the same area, yesterday increased the value of its all-paper offer from $1.7bn to $1.9bn.

The increased bid was intended to thwart a proposed friendly merger between Kansas City Power & Light and UtiliCorp, another Kansas-based utility, which had made an offer currently valuing Kansas City Power & Light at a little under $1.7bn.

Western Resources said its new offer was "clearly financially superior" to UtiliCorp's. "This merger makes great business sense, and we must pursue its completion," said Mr John Hays, chairman and chief executive. Kansas City Power & Light's stock was up $1⅛ at $27¼ in early trading.

Faced with the prospect of increased competition, electricity companies have been trying to drive their costs down by merging with neighbouring utilities.

However, the battle for Kansas City Power & Light is unusual because there have not previously been any hostile bids during the utilities industry shake-out.

Under the proposed merger between UtiliCorp and Kansas City Power & Light, a new company would be formed combining the two. Shareholders would receive one share in the new company for each existing share in the old companies.

Western Resources is offering $31 a share, up from $27 previously, to be paid in Western Resources stock.

UtiliCorp said its offer remained on the table and it had no immediate plans to respond to Western Resources' increased bid.

NEWS DIGEST

Merger will create Chile's largest bank

Banco de Santiago and Banco O'Higgins, Chile's third and fourth biggest banks, have formally announced an agreement to merge. The new entity would become the biggest Chilean bank, with capital and reserves estimated at $635m and a loan portfolio of $7bn, making it one of the 15 biggest banks in Latin America.

The announcement of the merger, which had been expected for many months, was published yesterday, along with notification of an extraordinary general meeting of shareholders of Banco Santiago for July 3. The latter is expected to seek a listing on the New York Stock Exchange and an ADR programme to allow shareholders to exchange ADRs in Banco O'Higgins for its own ADRs.

Banco de Santiago's shares fell slightly on the Santiago stock market yesterday morning as shareholders were reportedly disappointed at the exchange ratio for the merger, which values Banco Santiago's capital and assets at 55 per cent of the new entity, and Banco O'Higgins' at 45 per cent.

It is not yet clear how the new bank will resolve repayment of a $1.7bn subordinated debt owed by Banco Santiago to Chile's central bank, the legacy of emergency fiscal aid after the bank, along with most of the system, came near to bankruptcy in the early-1980s. In the case of the Banco de Santiago, the debt amounts to an equivalent of 70 per cent of its current share capital. The majority owner of Banco O'Higgins is OHCH, a financial conglomerate controlled jointly by the Luksic group and Banco Central Hispanoamericano of Spain. *Imogen Mark, Santiago*

Bank of NY sells card portfolio

Bank of New York yesterday said it was selling a credit card portfolio representing about a third of its credit card business to Household International, a US consumer finance company, for $575m in cash. It said it would use some of the proceeds to buy back up to 10m of its shares, adding to the 10.5m already bought back under a programme announced last November.

The portfolio being sold is the AFL-CIO Union Privilege affinity card portfolio, comprising 2.2m cards issued to members of the AFL-CIO labour union. The Bank of New York said its contract with the AFL-CIO expires next year, and it had declined to match the terms of a new contract offered by Household International.

The transaction will leave the Bank of New York with 4.4m credit card holders carrying more than $5bn in outstanding credit. The bank said the sale did not affect its plans to expand its remaining portfolio. "We are actively exploring other growth opportunities like the highly successful co-branded cards for Toys 'R' Us and Stop & Shop, introduced in 1995," the bank said. *Richard Tomkins, New York*

Sidek appoints new chief

Grupo Sidek, Mexico's troubled tourism and real estate conglomerate, has appointed Mr Luis Rebollar, former head of Scott Paper's operations in Mexico, as chief executive of both Sidek and its tourism subsidiary Situr. Sidek is currently trying to satisfy creditors by selling $1bn of non-strategic assets, primarily those belonging to Situr. *Daniel Dombey, Mexico City*

Record for Canada's brokers

Canada's brokerage industry, buoyed by active stock markets, posted record commission revenues of C$949m (US$694m) in the first quarter, up from C$508m a year earlier. A strong market for initial public offerings also helped. Overall net earnings were the highest since 1988, at C$194m against C$44m. At the operating level, profit rose 46 per cent to C$514m. *Robert Gibbens, Montreal*

CANTV plans $70m revamp

The Venezuelan telecommunications company, Compañía Anónima Nacional Teléfonos de Venezuela (CANTV), announced a $70m investment plan to improve the service to its 450 large corporate clients, which make up 70 per cent of its annual sales. CANTV's president, Mr Gustavo Roosen, said that investment in the public telephone service has suffered during the past two years as a result of a shortage of foreign currency. An important share package of CANTV is to be sold later this year. *Raymond Colitt, Caracas*

ERF takes a through route to Australia

Joining with Western Star gives the UK truckmaker access to an extensive dealer network

UK-based ERF was seeking a way to sell its heavy trucks in Australia when its chairman, Mr Peter Foden, flew to Kelowna, British Columbia, last January.

Kelowna, a popular retirement spot in the foothills of the Rockies best known for its fruit orchards, is home to Western Star Trucks which, like ERF, caters for the high end of the truck market.

The two companies envisaged a deal that would give ERF a foothold in Australia by using Western Star's extensive dealer network there. The Canadian company would have benefited by adding ERF's "cab-over" trucks without bonnets to its own range of bonneted vehicles.

As things turned out, however, Mr Foden's visit sowed the seeds of a more ambitious partnership. Western Star last month made a friendly £27.4m (US$42.1m) cash or shares offer for all ERF's 10m common shares, excluding the 4.2 per cent it already owns.

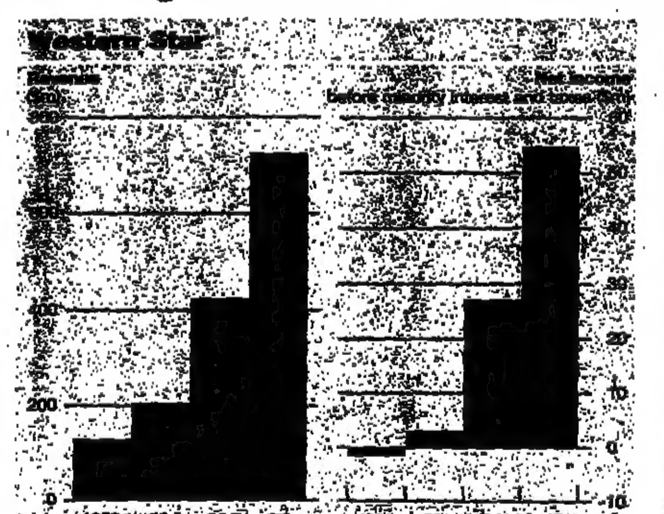
The deal is expected to be finalised by the end of this month, subject to the approval of at least 90 per cent of ERF's other shareholders.

Holders of 48.2 per cent of the shares, including the Foden family, have accepted the offer.

By joining forces, Western Star and ERF hope to expand their product range and penetrate new markets more quickly than either was likely to do by itself. "The thing that attracted us in the first instance is that they build a different truck," says Mr Bradley Stam, president of Western Star.

Although each company will retain a separate identity for the time being, Mr Stam says that "there will be co-operation, co-ordination and integration where benefits can be realised".

The acquisition marks Western Star's biggest step since it was rescued from near-bankruptcy in 1991 by Mr Terry Peabody, an Australian whose Brisbane-based group had a licence to assemble the Canadian company's trucks in Australia.



The Peabody family also has interests in waste management and the collection and distribution of fly ash, a coal residue used to make cement.

Mr Peabody, 58, spends more time in Brisbane than Kelowna, but his energy and focus – as well as government financial assistance – are given much of the credit for restoring Western Star's fortunes.

Western Star, with earnings of C$29.1m (US$21.3m) in the nine months to April 30 on revenues of C$556.2m, specialises in trucks tailored to customers' requirements, and off-road vehicles for the mining, forestry and oil industries.

"These guys have given me the best service and they have a good product," said one Alberta trucker earlier this month as he toured the Kelowna plant before taking delivery of his new 500-horsepower behemoth. His truck's features include mock-gold rims on the dashboard gauges, side-window demisters and sleeping quarters behind the cab. Switches in the sleeper allow the driver to start the engine and turn on the heat without getting out of bed.

Western Star's output has grown from five trucks a day at its 1991 nadir to 17 a day now. The 24-acre Kelowna assembly plant has a single-shift capacity of about 25 vehicles, but production has been held back in recent months by teething troubles related to the introduction of a new model series.

Mr Stam, a lawyer who handled the Peabody family's affairs in Seattle before moving to Kelowna a year ago, says production is likely to be back to 23 trucks a day by the end of July. Output will total 4,500-5,000 vehicles in the current fiscal year ending June 30, slightly lower than last year's 5,034. ERF's 1995 output was 3,300.

Western Star has a 6 per cent share of Canada's heavy truck market, and 1 per cent in the US. It claims to have been relatively unaffected by the recent slump in North American truck sales, thanks to new models and a low dependence on big fleet orders.

About 13 per cent of its sales are outside North America, mainly in Australia, New Zealand and Indonesia.

A wider international presence has been a high priority. According to Mr Stam, "to go to the next level, we need much more infrastructure and a daily presence in these markets".

Dealers were recently appointed in Chile, Ecuador and Colombia. ERF's presence in Europe – mainly the UK, Spain and France – as well as its established operation in South Africa were big drawing cards.

Since Mr Peabody's arrival, Western Star has shown a penchant for bottom-fishing. "We have looked for opportunities where there may have been some difficulties, so we don't have to pay an enormous amount," Mr Stam says.

One such opportunity – which also involved government support – was last year's purchase of Ontario Bus Industries, a troubled bus manufacturer with factories in southern Ontario and New York.

Western Star has installed new management, revamped the engineering department and overhauled assembly lines. According to Mr Stam, the operation is now profitable, with production up from two to 15 buses a week and new orders for several hundred vehicles from New York City, Toronto, Washington DC and various municipalities in the western US.

With the revival of the bus company – now called Orion – not yet complete, Western Star is likely to have its hands full over the next few years.

ERF has been struggling in the fiercely competitive UK truck market. Although Western Star expects to have a minimal physical presence at its new subsidiary, the new owners plan to push for some significant changes. They aim to move ERF more firmly in the direction of the customised, niche market in which Western Star operates.

With both companies relying heavily on North American components, they are likely to pool many purchases in order to increase leverage with suppliers.

Nor has Western Star forgotten what brought the companies together in the first place. If the deal goes ahead as planned, ERF trucks should be on the road in Australia – and several other countries – before long.

Bernard Simon

THE GERMAN PFANDBRIEF

Progress Report for Investors

Evolution and revolution for the German Pfandbrief

Growing acceptance among international investors worldwide

1995 was a year of evolution and revolution for the German *Pfandbrief* market, which with a total of DM 1.258 *trillion outstanding* at the end of 1995 constitutes the largest individual *segment of the German fixed income* market of over DM 3.6 trillion.

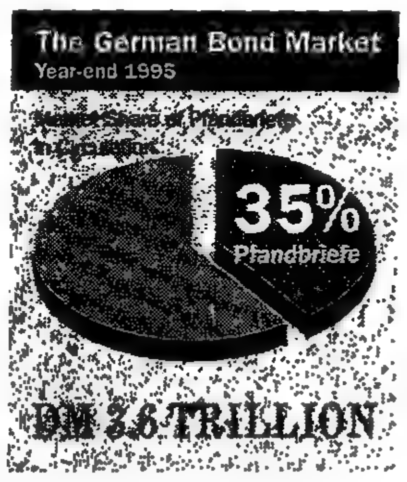
In terms of the evolution of the *Pfandbrief market, 1995 was a record* breaking year for the gross sales of the bonds, *with a total of* DM 325 billion issued, a 28 % increase over 1994's total of DM 253 billion, and a 5 % increase over the previous record of DM 309 billion established in 1993.

While the *increase* in issuing volumes in 1995 testified to the ever-expanding importance of the Pfandbrief market, more significant than the absolute growth was the revolutionary change in the structure of the market. This came in the form of the emergence of the new "Jumbo" *Pfandbrief*, which at a stroke offered local and international investors greatly enhanced liquidity and transparency.

The new "Jumbo" Pfandbriefe differ *from* their traditional predecessors in a number of important ways. First and *foremost*, while the typical size of *traditional* Pfandbrief issues ranges from between DM 50 million and DM 500 million (with some issues even as small as DM 10 million), the minimum *size for* a Jumbo issue has been set at DM 1 billion. Between May 1995, when Frankfurter Hypothekenbank kick-started the new Jumbo market with a DM 1 billion issue, and mid-May 1996, a *total of DM 86.5 billion of* Jumbo issues had been launched with an average size of DM 1.52 billion. The largest individual issue by mid-May 1996 was the DM 5 billion Pfandbrief launched in January by DePfa-Bank in Wiesbaden. By the end of 1996, the total volume of Jumbo Pfandbriefe outstanding is expected to have reached the *DM 110-120* billion level.

A second important feature of the new Jumbo market is that in order to be eligible for the "Jumbo" definition, new issues must have at least three market makers permanently quoting two-way prices, with bid-ask spreads varying from between five and 10 Pfennigs depending on the maturity of the individual issue.

A third important by-product of the development of the Jumbo Pfandbrief market has been that it has helped to emphasize the very clear differences between the German Pfandbrief sector and the mortgage-backed markets of several other economies with which the instrument is frequently (but mistakenly) compared. Because of the size of each issue, the vast majority of transactions in the Jumbo sector of the market have been Public Pfandbriefe (bonds collateralized against loans to the public sector), rather than Mortgage Pfandbriefe (which are collateralized against a pool of residential mortgages). This is because German law dictates that each and every new Pfandbrief issue must be matched by new lending.



By mid-May 1996, almost 95 % of the DM 86.5 billion Jumbo Pfandbrief market was acccounted for by Public Pfandbriefe, and *of the 58 Jumbo bonds* to have been issued by that date, only *four* were classified as Mortgage Pfandbriefe. In other words, the new Jumbo Pfandbrief market has had very little to do with the German mortgage market. More than nine times out of 10, an investor buying Jumbo Pfandbriefe will be gaining exposure to the *equivalent of German government* risk, while still benefiting from a pick-*up in yields over federal government* bonds (Bunds).

Jumbo Pfandbriefe enrich the scope of the German bond market

A significant by-product of the development of the new Jumbo sector has been the considerable enrichment of the scope and diversity of the German fixed income market. Historically, Pfandbrief investors demanded (and were given) a substantial pick-up in yields over German government bonds in *order to compensate for the perceived* absence of liquidity in the Pfandbrief market – a pick-up which in some periods rose to 50 basis points and more.

The *emergence* of the Jumbo Pfandbrief market has meant that for eligible issues of DM 1 billion and more, *this liquidity premium* has become an anachronism. As a result, the yield differential between traditional Pfandbrief issues and the new Jumbo deals became especially pronounced during the *first quarter of 1996, during which* time the spread between Jumbo Pfandbriefe and Bunds narrowed sharply, *from* 25.6 basis points at the beginning of January to 12 basis points by the end *of March. In spite of the reduction in* the pick-up over Bunds which is now available in the Jumbo market, this double-digit spread over government securities still represents outstandingly good value, given that there is little (if anything) to choose between the two *in terms of credit* quality.

Given the unrivalled track record of the *Pfandbrief in terms of security*, however, many yield-hungry investors are already indicating that they would prefer to maintain their tried and tested exposure to traditional Pfandbriefe rather than surrender the extra basis points through buying Jumbo bonds. Either way, it is clear that investors now have a much greater choice in the German fixed income market than ever before.

Trading systems enhance transparency

While the emergence and rapid development of the new Jumbo sector of the Pfandbrief market has inevitably generated substantial levels of interest both within Germany and internationally, it is a mistake to interpret the advent of the Jumbo Pfandbrief as the only critical breakthrough in the expansion of the market as a whole. A number of other important initiatives have either been made or are now in the pipeline which are also aimed at improving the transparency and liquidity of the market, and, in turn, *its acceptability among* international investors.

Early examples of this was the introduction in April 1995 of the Pfandbrief Price Index PEX and the Performance Index PEXP. The PEX Index is calculated daily and can be called up at any time via the Bloomberg system. Since summer 1995, the Bloomberg GDO (*German Domestic* Offerings) system has been operating for domestic and international investors *and traders not authorized to trade* on German stock exchanges.

A more recent initiative which will *support the expansion of the* Pfandbrief market came at the end of 1995, when the Deutsche Börse AG (German Stock Exchange) introduced the IBIS-R bond quotation and trading system, an extension of the tried and tested IBIS equity trading mechanism. IBIS-R, which supports both the primary and secondary markets for Pfandbriefe as well as *other German* fixed interest instruments, replaces the old trading system under which the vast majority of trades took place by telephone between the banks, and therefore offers substantially enhanced market transparency – and hence liquidity – for all market participants. With bid and ask quotes pooled *within a single system*, transactions can now be conducted on-screen at market prices in real time.

Ownership structure of Pfandbriefe

Historically the German Pfandbrief has predominantly been a domestic investment vehicle, with local insurance companies, banks and private individuals *accounting for the lion's share of ownership*. Foreign investors, by contrast, have traditionally held no more than about 10 % of the market – which compares with *their much more active* participation in the German government bond market, of which non-German investors account for *ownership of* between 40 % and 50 %.

The development of the Jumbo Pfandbrief sector has led to the beginnings *of a revolution* in the ownership structure of the Pfandbrief market for two clear reasons. First, the enhanced liquidity and transparency in the market have removed the two traditional stumbling blocks to active participation by foreign investors. Second, since the launch of the Jumbo market last May, a number of non-German investment banks have become lead or co-lead bookrunners for a series of Jumbo Pfandbrief transactions. In the first quarter of 1996, bookrunning of Pfandbrief issues by foreign banks accounted for 23.8 % of the total raised in the Jumbo Pfandbrief market, compared with a share of just 15.8 % in the whole of 1995.

As a direct result of these two developments, foreign ownership in the Jumbo Pfandbrief sector of the market is now far higher than in the traditional sector. Speaking at a recent conference in Düsseldorf, Dr. Walter Dieck, President of the Association of German Mortgage Banks, estimated that foreign investors' share of the Jumbo market *now stands* at between 20 % and 25 %, compared with just 10 % in the traditional sector.

1995 – The year of the Pfandbrief

A strong year for Germany's private mortgage banks

While the strength and increased popularity of the Pfandbrief in 1995 and the early months of 1996 *were helped* by the emergence of the Jumbo sector and a benign interest rate environment, the *underlying resilience of the market* is for the most part a reflection of the robust state of the German private mortgage banking industry. German law dictates that the volume of new funds raised through the Pfandbrief market by *mortgage banks must* at all times match the demand for new lending – either to the public sector or to individual or commercial mortgage borrowers.

Though demand for mortgages slipped slightly in 1995, by 6 %, this small decline was more than compensated for by a sharp expansion in the demand *for public sector loans*, which rose by 70 %. This left the overall increase in total commitments in 1995 up by 34.4 %, following a decline in 1994 of 14 %.

As a result, a total of DM 241.6 *billion in new* bearer and registered bonds were sold by Germany's private mortgage banks in 1995, which helped *the sector to raise its share of the total* domestic bond market to 35 % – a sharp increase over the share of just 21 % which was *recorded* in 1992 following German reunification and the surge in issuing activities of the public sector.

Germany's Mortgage Banks in Perspective

Year-end 1995

	Total Germany DM billion	Mortgage Banks DM billion	Market Share %
ISSUING			
Domestic bonds outstanding	3,213.4	824.1	25.6
Domestic bank bonds outstanding	1,949.6	824.1	42.3
Pfandbriefe outstanding	1,257.5	751.0	59.7
LENDING			
Residential property	1,303.8	288.1	22.1
Commercial real estate	311.2	158.1	50.2
Federal, state, municipal governments	759.6	323.6	42.8

The German Pfandbrief in a nutshell

The Pfandbrief – for which there is no meaningful English translation – is a German bond issued by a select group of specially authorized banks under a strict legal framework dating back almost 100 years. Germany's Mortgage Bank Act (enacted in 1900) and its Public Sector Pfandbrief Act (of 1927) limits the issuance of Pfandbriefe to 24 pure private mortgage banks, three mixed *private* mortgage banks, 12 regional Landesbanks and six institutions officially classified as "public sector banks with special tasks". As of the end of 1995, 59.7 % of Pfandbriefe *outstanding was accounted for by* private mortgage banks, with the remaining 40.3 % the domain of public-sector issuers.

An illuminating measure of the security *offered* by the Pfandbrief market is that in its entire history, no Pfandbrief issuer has ever defaulted on its obligations. The collateral backing Pfandbriefe takes the form either of real estate mortgages (in the case of Mortgage Pfandbriefe) or loans to public-sector entities (*Public Pfandbriefe*). Importantly, and unlike US-style collateralized bonds, the security is not allocated to any individual issue, but maintained on an independently-maintained register which sharply reduces individual issue-specific risk.

As of the end of December 1995, the German Pfandbrief market was the third largest individual bond market *outside the* US and, with DM 1.258 billion outstanding, was more than twice the size of the UK Government bond ("Gilt") market. The Pfandbrief market accounts for around 35 % of the entire German bond market and is comfortably larger than the Federal *Government* bond ("Bund") market, which contributes just under 28 % of all *outstanding* German fixed income products.

GERMANY'S MORTGAGE BANKS

- DEPFA-BANK, WIESBADEN
- BAYERISCHE VEREINSBANK AG, MÜNCHEN
- HYPO-BANK, MÜNCHEN
- FRANKFURTER HYPOTHEKENBANK CENTRALBODEN AG, FRANKFURT
- DEUTSCHE HYPOTHEKENBANK FRANKFURT AG, FRANKFURT
- RHEINHYP, FRANKFURT
- DEUTSCHE GENOSSENSCHAFTS HYPOTHEKENBANK AG, HAMBURG
- BAYERISCHE HANDELSBANK AG, MÜNCHEN
- WESTHYP, DORTMUND
- HAMBURGHYP, HAMBURG
- MÜNCHENER HYPOTHEKENBANK EG, MÜNCHEN
- SÜDDEUTSCHE BODENCREDITBANK AG, MÜNCHEN
- WÜRTTEMBERGER HYPO, STUTTGART
- BERLIN-HANNOVERSCHE HYPOTHEKENBANK AG, HANNOVER
- HYPOTHEKENBANK IN ESSEN AG, ESSEN
- BERLIN HYP, BERLIN
- ALLGEMEINE HYPOTHEKENBANK AG, FRANKFURT
- NÜRNBERGER HYPOTHEKENBANK, NÜRNBERG
- DEUTSCHE HYPOTHEKENBANK (ACT.- GES.), HANNOVER
- RHEINBODEN HYPOTHEKENBANK AG, KÖLN
- LÜBECKER HYPOTHEKENBANK AG, LÜBECK
- NORDHYPO BANK, HAMBURG
- CLF HYPOTHEKENBANK BERLIN AG, BERLIN
- BFG-HYPOTHEKENBANK AG, FRANKFURT
- WL-BANK, MÜNSTER
- M.M. WARBURG & CO HYPOTHEKENBANK AG, HAMBURG
- WÜSTENROT HYPOTHEKENBANK AKTIENGESELLSCHAFT, LUDWIGSBURG

For further information about German Pfandbriefe please contact: Verband deutscher Hypothekenbanken, Bonn, Fax (228) 9 59 02 44.

COMPANIES AND FINANCE: UK

Forte's finance chief to join WH Smith

By David Blackwell

Mr Keith Hamill, who was widely admired for his part in Forte's defence against Granada's £3.9bn ($5.96bn) hostile bid, is to become finance director of WH Smith.

Mr Hamill, 43, graphically described the state of the Forte camp when news of the bid broke as like "being on the Titanic when the iceberg struck". But he rapidly became a key aide to Sir Rocco Forte in the struggle to survive, leading the finance team through a month of 14-hour days for six or seven days a week.

As the final hope of survival faded, Mr Hamill continued the nautical metaphor, telling staff: "Our company is going down. However, I am proud to report that it has gone down with every gun blazing."

He is joining WH Smith at a critical point in its fortunes. Last week the group announced the outcome of its long-awaited strategic review, launching plans to revitalise its position in the high street through a sweeping overhaul of its retail stores.

Mr Hamill – a stocky, bespectacled man with a keen sense of humour and down-to-earth manner – joins the WH Smith board next month and takes up the finance director's duties from September 1 when Mr John Napier, 59, retires.

Analysts welcomed the appointment. "A shot of sterner financial disciplines would not be a bad thing," said one. Another described him as "very upbeat and proactive – he brought a burst of fresh energy to Forte during his couple of years there."

A former colleague said Mr Hamill's great skill was solving problems, adding: "This was the job he wanted rather than the job he needed."

Mr Jeremy Hardie, chairman of WH Smith, said Mr Hamill's "experience and success in restructuring businesses and the development of financial and IT process, coupled with his strategic and investor relations skills" would be of great benefit to the group.

Mr Hardie added that Mr Napier was "retiring on a high note" after the recent disposals of WH Smith Business Supplies and Do It All."

Mr Hamill joined accountants Price Waterhouse on leaving Nottingham University, where he read politics, rose to partner, and worked as an auditor on the Guinness account at the time of its 1986 bid for Distillers.

He was called as a witness in the subsequent trial of Mr Ernest Saunders, the former Guinness chairman, over the conduct of the bid.

He was recruited to Guinness itself in 1988 by Sir Anthony Tennant, then chairman of the drinks company, and rose to be finance director of United Distillers, its spirits subsidiary, before joining Forte as in September 1993.

Acquisitions and strong demand lift British Steel

By Stefan Wagstyl, Industrial Editor

British Steel yesterday posted record full-year profits of £1.1bn ($1.68bn), buoyed by acquisitions and strong demand in the first half of the year.

Turnover rose 47 per cent to £7.05bn, thanks mainly to the purchase of a controlling stake in Avesta Sheffield, the stainless steel maker, which was consolidated in the second half of the year, and the first full-year contribution from United Engineering Steels, the Sheffield-based company. Excluding acquisitions, turnover rose 10 per cent.

The acquisitions also affected operating costs, which rose 41 per cent to £6.1bn. However, the underlying increase was just 4 per cent.

Setting aside the acquisitions, the payroll fell by 850, reflecting the company's continuing determination to cut costs. Overall staff numbers increased from 46,300 to 53,900.

The company made capital investments of £364m, including in Trico, its steelmaking joint venture in the US, and in modernisation at Avesta. It also boosted its net cash position by £561m to £890m and plans to invest a further £400m in the current year, as spending on Trico peaks.

The increased final dividend of 7p, makes a total payout of 10p, up 33 per cent from 7.5p. Earnings per share were 38.28p (23.21p).

UK deliveries totalled 7.3m tonnes as the company increased its market share to 58 per cent at the expense of importers which were suffering from the effects of sterling's weakness.

In continental Europe, deliveries rose to 4.4m tonnes from 3.5m tonnes, due to the acquisitions. Outside Europe, deliveries were 2.7m tonnes (2.3m tonnes), again thanks to acquisitions. Average revenues per tonne, rose 33 per cent to £419. Without the acquisitions, revenues per tonne rose 10 per cent to £348.

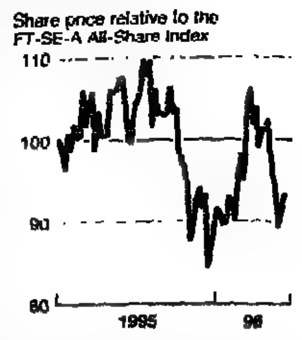
LEX COMMENT

British Steel

Sir Brian Moffat, British Steel chairman, rather gave the game away yesterday when he compared last year's £1.1bn profits to those of the previous peak in 1989-90. The only question now is how rapidly profits will decline this time round. The industry background is mixed at best. British Steel expects prices to firm after nearly a year of weakness, pointing to an end to UK destocking and buoyant underlying demand in Europe and Asia. But the steel industry's problem, particularly in Europe, has always been oversupply rather than lack of demand. German and French steel producers are still on short-time working in an effort to clear excess stocks. The experience in the US – which tends to be six months ahead of Europe – suggests any bounce in steel prices will be modest if it comes. Moreover, British Steel is facing higher raw material costs and a strengthening British pound.

British Steel

Share price relative to the FT-SE-A All-Share Index



Source: FT Extel

Nor is British Steel that different a company from when it entered the last downturn. Despite all the cost cutting, last year's profits were not very different from the £733m in 1989/90, once one adjusts for inflation and acquisitions. The group is still highly cyclical and makes four-fifths of its sales in Europe. It has some promising US investments, but has found it difficult to break into Asia. British Steel does have £690m of net cash. But with its management facing a 40 per cent decline in earnings per share this year and only expecting cash flow to be neutral, a share buy back or another dividend increase look highly unlikely. That leaves the shares with few attractions.

Zeneca in US deal

By Daniel Green

Zeneca, the UK's third largest pharmaceuticals company, has made a rare foray into the world of biotechnology by signing an agreement with US company Incyte Pharmaceuticals.

The deal, a set of subscriptions to huge databases in genetics, will cost Zeneca between £5m and £7m ($10.7m) a year indefinitely.

Unlike most other large pharmaceuticals companies, Zeneca rarely joins forces with biotechnology companies.

It has signed only three deals in the past two years – with Sugen and Boston Life Sciences of the US and Celltech in the UK.

Rivals, such as SmithKline Beecham of the UK, typically conclude dozens of biotechnology company each year. Zeneca's top management has been seeking to do more in the area.

Mr David U'Pritchard, research director for Zeneca pharmaceuticals, said the Incyte deal would help Zeneca build up its in-house research in genomics – the use of genetic information.

Mr U'Pritchard said that the information would help the company "identify and validate new research targets"

A hot future in fire protection

Ross Tieman analyses Williams stance as a focused conglomerate

A shell fragment bursts through the side of an aircraft or tank and in the time it takes to blink an explosion is triggered and extinguished. The machine and crew are saved.

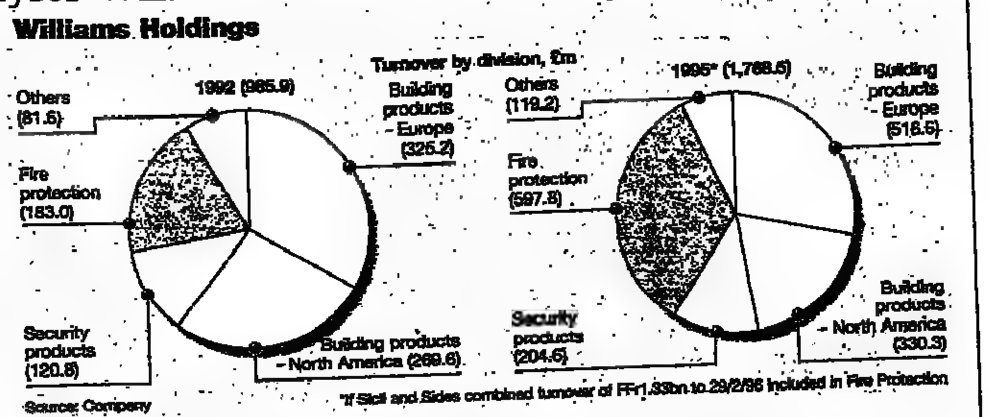
This is a demonstration of the high-tech edge of fire protection, the £6bn a year business in which Williams Holdings is a world leader.

Making equipment to stop, detect and extinguish fires is opening doors to growth and a much-needed re-rating for Williams.

Until last month, Rawlplugs, Polyfilla, paint and other building products accounted for more than half the group's £1.6bn annual sales. Williams is breaking away from dependency on the construction and building cycles by building a global business by welding together companies plucked from the fragmented fire equipment market. Its fire protection division now counts sales of £700m a year.

With last month's £175m purchase of Sicli and Siddes in France, its products range from fire detection systems, through industrial fire-fighting equipment, to fire engines and domestic extinguishers.

These markets are growing at 5-15 per cent a year, partly as a result of increasingly tough regulations. Williams has achieved savings by spreading research and development across a broader base, and using the distribution systems it acquires to introduce existing products into new markets.



Source: Company

*If Sicli and Sides combined turnover of FFr1.33bn to 29/2/96 included in Fire Protection

It claims 12 per cent of the world fire equipment market. Tyco International of the US is a rival in industrial and portable extinguishers; Nohmi Bosai and Hochicki of Japan are strong in industrial detectors and panels; Chubb (UK) and Cerberus of Switzerland are also significant competitors. But no other company offers the range of equipment that Williams does.

However, analysts question Williams' claim to be Britain's first focused conglomerate. "You can't really become focused just by bundling everything into four divisions," says one.

Mr Roger Carr, Williams' chief executive, accepts that his company, like rivals Tomkins, Hanson and BTR, grew by opportunism. "We all started in the same place: buy what you can, sort it out, and move on," he says. Now, "our aspirations are to build businesses internationally".

At the consumer end, where disposable extinguishers sell in DIY sheds, there is a link between fire-fighting equipment, locks and building products. But even within the fire division, equipment is sold to buyers as varied as local authorities, aircraft makers and building engineers. Doorchimes, made by Williams' US subsidiary NuTone, are not on their shopping list.

The benefits of running fire, security and building products in parallel are strictly limited.

But Mr Carr rejects suggestions that the company should demerge. "The whole issue of demerger is when you decide we at head office bring nothing to the party," he says. "We are still adding value. The opportunity to take a Sicli, to buy it and integrate it – those are things that come from Williams."

For its claim of a focused strategy to be credible, Williams will have to take tough decisions on the future of peripheral businesses. Analysts say the home improvements companies look increasingly out of place. In that case NuTone; Smallbone, the fitted kitchen specialist; Amdega conservatories; Dreamland electric blankets; Larchlap fencing; and several more may all be on the block.

At the end of 1993, Williams sold its Cortworth engineering subsidiary to management for £40.3m, retaining 19 per cent to capitalise on future growth. Cortworth floated last year with a £71.6m price tag, valuing Williams' interest at £13.6m. Now Williams is set to divest its electronics business. More may follow.

Former director at Chiroscience to sue

By Clive Cookson, Science Editor

Mr Nowell Stebbing, one of the UK's best-known pharmaceutical entrepreneurs, is taking legal action against Chiroscience, the company he steered to a stock market flotation in 1994.

His writ against Chiroscience alleges that he was wrongfully dismissed as the company's deputy chairman in August. He is also claiming damages for the wrongful removal of share options worth £3.5m-£5.5m ($8.4m).

Mr Stebbing is now guiding Cambrio, a new pharmaceutical company, to a flotation next month.

Chiroscience did not mention the writ – issued in February – when it raised £40m in a share placement last month.

"The group believes his claim has no merit and the board has been advised that he is unlikely to succeed," Chiroscience told the Financial Times.

"Accordingly, the board believes this dispute will not have any significant impact on the group's financial position and therefore does not consider it to be material."

The background to the dispute is that Mr Stebbing developed cancer in 1993, about six months before the Chiroscience flotation. He saw the flotation through as acting chief executive but, because of his illness, he agreed to hand over the chief executive's job to Mr John Padfield who joined the company from Glaxo in April 1994.

Mr Stebbing claims he was asked to resign last year although he was in good health by then and performing well. At the same time, he claims, Chiroscience wrongfully removed about one third of his share options. His writ puts forward alternative valuations of the loss, from about £3.5m to more than £5.5m, depending on the assumptions made.

Chiroscience said the terms of Dr Stebbing's contract were satisfied in full on his departure. "He received £101,000 compensation for his loss of office, in addition to which in September 1995 he exercised share options which he was permitted to retain with a value at that time of £7.43m," the group said.

The case is likely to be heard in the High Court next year, if it is not settled by negotiation.

Thomas Cook set for Sunworld buy

By David Blackwell

Thomas Cook, the high street travel agent that has a stake in holiday operator First Choice, is expected later this week to announce the £40m ($61.2m) acquisition of Sunworld.

Sunworld, privately owned by a Spanish group, has about 5 per cent of the UK package holiday market, making it the fifth largest after Thomson, Airtours, First Choice and Cosmos-Avro. It already supplies holidays for Thomas Cook, and is featured in the group's brochures.

The acquisition is seen as key to giving Thomas Cook the vertical integration that Thomson and Airtours already enjoy through their respective ownership of travel agencies Lunn Poly and Going Places.

The deal has been rumoured for several months, but is understood to have been complicated by the link with First Choice. A planned strategic alliance between Thomas Cook and First Choice collapsed 18 months ago, although the agent still sells more than 15 per cent of First Choice holidays.

Thomas Cook, which is wholly owned by Westdeutsche Landesbank, the Dusseldorf-based state-owned bank, is understood not to be announcing the sale of its 11 per cent stake in First Choice this week. But analysts believe a final exit is only a matter of time, and would make even more sense once Sunworld has been acquired.

In 1993 Thomas Cook held a 21 per cent stake in First Choice after helping it to defeat a hostile bid from Airtours. But the alliance always promised far more than it ever delivered.

Since its collapse, at the end of 1994, Thomas Cook has reduced its stake, mainly by not participating in a £44.1m rights issue last October, when First Choice announced profits of just £1.3m after a disastrous summer season.

Tomorrow Airtours announces its interim results, and observers will be watching for signs of how sales for this summer season are going. They could give a guide to expectations for First Choice, which reports in another month. First Choice shares lost 2½p to 80½p yesterday, well below the 150p paid by Thomas Cook in April 1993.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Adare Printing §	Yr to Apr 30	70.1	(43.9)	7.78	(3.29)	53.38†	(30.8)	2.986	Aug 8	1.3025	5.085	2.342
British Steel	Yr to Mar 30	7,048	(4,784)	1,102	(578)	38.28	(23.21)	7	Aug 12	5.5	10	7.5
East Surrey	Yr to Mar 31 ★	47	(44.5)	15♠	(14.4♥)	49.2†	(49.6)	12.4	Aug 2	10.7	18.8	15.7
Filofax §	Yr to Mar 31	42.7	(31.2)	6.56	(4.92)	16†	(13.5)	2	Nov 1	1.575	3.35	2.625
London Industrial	Yr to Mar 31	14	(9.83)	4.16	(2.43)	21.3	(20.2)	9	Aug 1	7	13	10
Lon Scot Bank	6 mths to Apr 30	-	(-)	4.3	(3.52)	2.6	(2.1)	0.85	July 26	0.725*	-	2.5*
Oceana Cons	Yr to Mar 31	15.9	(13.8)	2.54	(1.69)	20.62	(14.37)	2.75	July 23	2.25	3.5	2.875
Old English Pub Φ	15 mths to Mar 31 ◆	7.78	(3.34)	0.494♠	(0.142)	3†	(2.34)	0.67	July 19	-	1	-
Peana	Yr to Mar 31	14.67	(11.56)	1.06	(0.116)	10.12	(0.4)	1	July 25	nil	2	1
Sterling Inds	Yr to Mar 31	68.8	(58.2)	8.11	(7.09)	18.69†	(17.33)	5.7	Aug 12	5	8.5	7.5
Wagon Industrial	Yr to Mar 31	410.3	(343.5)	19.9♠	(20.9♠)	23.2	(29.17)	12.75	Oct 2	12.1	19.75	18.75
Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Invesco Recovery	5 mths to Apr 30	126.3	(97.9*)	0.306	(0.322)	3.69	(3.89)	4	Aug 7	4	-	8

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ΦAim stock. §USM stock. ★ Comparatives restated. *Equivalent after allowing for scrip issue. ◆Comparatives for year to January 1. *At Oct 31 1995.

LAW

Restrictions on dealers outlawed

EUROPEAN COURT

National restrictions on foreign securities dealers are contrary to Treaty of Rome rules on the freedom of establishment and the provision of services, the European Court of Justice has ruled. The ruling followed proceedings brought by the European Commission against Italy for breach of its treaty obligations.

The Commission claimed that certain Italian provisions which had an impact on foreign dealers were contrary to the Rome treaty's provisions on the establishment and the provision of services.

Under the Italian rules, dealers in transferable securities (apart from those in banks) could only carry out their activities in Italy if they had been authorised to do so by the National Commission for Companies and the Stock Exchange. One condition for such authorisation was that the dealer had to be constituted in the form of a limited company which had its registered office in Italy.

Insofar as freedom of establishment was concerned, the Commission submitted that the restriction prevented dealers from other member states from making use of certain forms of establishment, such as branches or agencies. It also discriminated against them by obliging them to bear the additional costs of setting up a new company. The Commission argued that the restriction was disproportionate as it was not necessary for attaining the legitimate aim pursued by the Italian legislation.

The European Court ruled that under the relevant treaty provisions, freedom of establishment was to be exercised under the conditions laid down by the law of the country of establishment for its own nationals. Thus, where access to a specific activity was subject to certain conditions in the host member state, nationals of other member states who wished to carry out the activity in question had, in principle, to comply with those conditions.

However, the treaty provision outlawed discrimination against nationals of other member states, in particular by domestic rules which were liable to place those nationals in a situation which was less favourable than that of nationals of the host member state.

The Italian government did not deny that the restriction impinged on the freedom of establishment, but claimed that it could be objectively justified. In particular, it was claimed that foreign securities dealers could not be supervised and effectively sanctioned unless they had their principal place of establishment in Italy.

The European Court did not accept that claim. While the restriction facilitated the supervision and control of the dealers, it was not the only means of ensuring compliance with the domestic rules. It was, for example, possible to require dealers to agree to be subject to checks or to supply documentation demonstrating compliance.

Even if the aims of the Italian legislation were to be regarded as covered by the Treaty of Rome public policy exception, that exception could not be relied on as the restriction was disproportionate.

Insofar as the provision of services was concerned, the Commission argued that the restriction entirely precluded the provision of services in Italy by dealers from other member states. It considered that the restriction was neither indispensable nor necessary for achieving the legitimate aims of investor protection and market stability pursued by the Italian legislation.

The European Court found that the obligation on dealers from other member states to set up their principal place of establishment in Italy was the very negation of the freedom to provide services. It did not constitute a condition which was indispensable for attaining the aim pursued, for the same reasons as the court had found in respect of the arguments advanced by Italy on freedom of establishment.

C-101/94: Commission v Italy, ECJ FC, June 6 1996.

BRICK COURT CHAMBERS, BRUSSELS

INTERNATIONAL PEOPLE

Exit door opens a crack at Heinz

Speculation about the succession at H.J. Heinz, the US food company, has burst into life again with William Johnson, one of five senior vice presidents, cast in the role of the man most likely to succeed Anthony O'Reilly (above) in the top job.

Until now, Heinz has looked something of a one man band: the Irish-born O'Reilly has held all three top jobs of chairman, president and chief executive. But now O'Reilly, who reached 60 this year, is handing over his president's title to Johnson and creating a new role for him as chief operating officer.

Johnson, a 47-year-old Texan, is credited with two main accomplishments at Heinz: spurring profits growth at the company's Star-Kist tuna unit and successfully integrating the acquisition of Quaker Oats' pet food division.

Heinz says it would be wrong to read too much into his promotion. O'Reilly will not be stepping down for at least three years, it says, and no succession plan will be devised "until such time as he wishes to proceed down that road."

Four years ago another of Heinz's senior vice presidents, David Sculley, was tipped as a potential successor to O'Reilly, but nothing ever happened: two weeks ago Heinz announced that he was leaving to form a buy-out company with his brothers.

With Johnson's promotion, the three remaining senior vice presidents - William Springer, 56, Luigi Ribolla, 59, and David Williams, 58 - are being promoted to executive vice presidents. *Richard Tomkins*

ICI India posts

ICI's programme of appointing nationals to head its foreign businesses has arrived in India. George Ewart, chairman and managing director of ICI India, is returning to London as executive responsible for ICI's regional businesses.

He will be replaced by Ashok Ganguly (pictured left), who will take over as non-executive chairman of the ICI subsidiary. Ganguly, 60, joined Unilever as a management trainee in 1962 – the same year as Ewart joined ICI. He is currently Unilever's director of research and engineering, and has been a board member since 1990.

ICI India's new chief executive will be Aditya Narayan, 44 (right), who has been with the company for 23 years.

Narayan has been working as a corporate planning officer at ICI's London headquarters since March, but before that held a series of senior positions in ICI India, including overseeing divestment of the ICI Fertilizer business in 1993.

Most recently, he was vice president, explosives for ICI India, with responsibility for the explosives business and ICI's establishments in the east of the country.

Ewart, a Scot, joined ICI as a chemist and has been with ICI India since 1990. In his new capacity he will be responsible for overseas businesses that do not fit with its core international activities.

The various appointments take effect from August 1.

T Boone bows out

T Boone Pickens, the legendary corporate raider, is preparing to quit the corporate scene, though his departure comes with less of a bang than a whimper.

The 68-year-old Texas oil man announced last week that he is to step down as chief executive of Mesa, the energy company he founded 40 years ago. Mesa once provided the platform for his assaults on giants of the industry like Gulf Oil and Unocal. His planned departure marks the passing of control to Richard Rainwater, a Texas investor who is in the midst of a financial restructuring of the heavily indebted company.

It was an ignominious end for a man who once struck fear into some of oil industry's most powerful executives. Having placed a huge and unsuccessful bet on natural gas prices with the purchase of part of the massive Hugoton gas field, Pickens has spent much of the 1990s trying to keep Mesa afloat. Since last summer he has also had to fend off attempts from a group of investors to take control of the company, leading eventually to the deal with Rainwater.

The great raider's departure was greeted by a jump in Mesa's share price. Standard & Poor's, the US ratings agency, meanwhile said it expected to raise the company's credit ratings once the recapitalisation of the company is complete. *Richard Waters*

Mitsubishi's Sir Peter

Sir Peter Parker (left), best known as the former chairman of British Rail, has been named chairman of Mitsubishi Electric Europe, under a restructuring of the Japanese group's European sales and marketing operations.

Sir Peter, 72, is a long time director and current chairman of Mitsubishi Electric UK. One of the rare Japanese-speakers among his generation of British managers, he still finds the energy to chair several other UK companies and organisations, including the court of governors of the London School of Economics.

Mitsubishi Electric Europe has been set up to create a unified approach to sales and marketing across the continent. Its president and chief executive is Tetsuji Takeoka, 54, who was previously in the strategic planning department in Tokyo. *Nim Caswell*

ON THE MOVE

■ *ALGOMA, Canada's third biggest steel maker, has hired Sandy Adam from Toyota Canada as president and chief executive. Adam, a steel industry veteran, became senior vice-president at Toyota in 1994 to supervise a C$600m assembly plant expansion. At* Algoma he succeeds Alan Hopkins, with whom he worked closely at Stelco, the second biggest steel producer, in the 1980s.

■ Steven Scheid, 42, former principal financial officer for First Interstate Bancorp, has been appointed executive vice-president and chief financial officer of CHARLES SCHWAB CORPORATION.

■ Gerard (Gep) Jansen has been appointed general manager of CIGNA's eastern European region, based in Warsaw. Jansen joins Cigna after 20 years with American International Group (AIG).

■ Dietrich Ruemker, deputy management board chairman at LANDESBANK SCHLESWIG-HOLSTEIN, takes over as chairman from July 1. He succeeds Walter Schaefer, who will take over the same position at LANDESBANK HESSEN-THUERINGEN.

■ Thomas Robinson, a 25-year COMPUTER SCIENCES CORPORATION veteran, has been named president of CSC's technology management group. He succeeds Edward 'Pete' Boykin, who has moved to The Pinnacle Alliance in New York at JP Morgan.

■ William Holden has been appointed president and chief operating officer of HALLSMITH-SYSCO FOOD SERVICES, a division of Sysco, the America food service company. Holden succeeds Edward Hasty, who will become chairman.

■ Michael Newman, 47, has been appointed vice-president of manufacturing for EASTMAN CHEMICAL's Latin America region.

■ Nathaniel Mass joins GENCORP, the US manufacturing group, as senior vice-president of strategic growth. He was previously with McKinsey and Co where, as a partner, he led the Business Dynamics Centre.

■ Steven Webster and Paul Lloyd, respectively chairmen and chief executives of FALCON DRILLING and READING & BATES of the US, have resigned their membership of each other's boards, on the basis that the companies "may be competitors in the future".

■ Manuel Baez has been appointed to the newly created position of senior vice president and president – analytical instruments at PERKIN-ELMER CORPORATION. Baez was previously executive vice-president of Baxter International.

■ Michel Daude has been appointed managing director of COGECOM, a holding company within France Telecom. He replaces Jacques Champeaux, director of France Telecom's corporate division.

■ William Walker has resigned as chief executive of ZILOG, the US semi-conductor manufacturer. He will be replaced by Robert Collins, previously Zilog's corporate controller.

■ Horst Bergmann, 58, chairman, president and chief executive of Times Mirror's flight information publisher Jeppesen Sanderson, is to take on additional responsibilities as chief executive of TIMES MIRROR TRAINING. Edward Johnson, 52, whom he replaces, is leaving the company after 12 years.

■ Dave Robbins joins LEHMAN BROTHERS as head of emerging markets Brady and Eurobond trading – Lehman's seventh new hire this year in the group. Robbins was previously with Morgan Stanley, where he traded emerging markets instruments, Eurobonds and other fixed-income products.

■ Kenneth Davis has been appointed chairman of Alexander & Alexander Inc., the US risk management consulting and retail insurance broking subsidiary of ALEXANDER & ALEXANDER Services.

■ Polar Tanoto, 41, has been appointed chief executive of ASIA PACIFIC RESOURCES INTERNATIONAL HOLDINGS, a pan-Asian producer of pulp, paper and rayon fibre, based in Singapore. He will continue to serve as deputy chairman.

■ William Ris has been elected vice-president of government affairs for AMERICAN AIRLINES. He succeeds Edward Faberman, who has left the company.

■ Neal Crowe becomes UK managing director of AKERLAND & RAUSING, the packaging group. He joins from Sidlaw Flexible Packaging.

■ Richard Ross has been appointed vice-president, finance and chief financial officer of INMET MINING, the former mining arm of Metallgesellschaft. He was previously vice-president, treasurer.

■ David Eldon, chief executive of Hongkong and Shanghai Banking Corp, a unit of HSBC Holdings, joins the board of SWIRE PACIFIC. He replaces John Gray, who resigned following his retirement as Hongkong Bank's chairman and chief executive.

■ Shang Fulin and Chen Yaoxin have been appointed vice-governors of the PEOPLE'S BANK OF CHINA.

■ Richard Carrión, chairman, president and chief executive of Banco Popular de Puerto Rico, has been elected chairman of the INTERNATIONAL FINANCIAL CONFERENCE.

■ Kevin Burns becomes president of WESTINGHOUSE Security Systems, a subsidiary of Westinghouse Electric Corporation.

■ Martin Loeffler rises to chief executive of AMPHENOL, manufacturers of connectors, in addition to his current responsibilities as president.

■ Paul Bijvoets, 48, chief executive of Nedlloyd Lines, joins the executive board of ROYAL NEDLLOYD from July 1. H.J. Helb retires on January 1.

■ David Pendergast joins BIOGEN as vice-president – quality assurance and quality control. He was previously director, quality assurance/quality control of Fisons.

■ Aporn Chewakrengkai has been appointed chief economist at DEUTSCHE MORGAN GRENFELL SECURITIES (Thailand). Aporn was previously with Thailand's National Economic and Social Development Board, where he was director of economic analysis and projection.

■ Graham Searle, 44, joins the London-based security and speciality printing division of MDC CORPORATION of Toronto, as president & chief operating officer. He was previously director of security printing in Europe, for Thomas De La Rue.

■ Takashi Tanaka is to resign as chairman and become an adviser at the BANK OF YOKOHAMA.

■ Thomas Dickerson has been named president of GENERAL MOTORS ACCEPTANCE CORPORATION OF CANADA, succeeding James Watson, who is retiring. Three new area vice-presidents – Tommy Pritchard, Joseph Taylor Jr. and David Borchelt – will be based in Los Angeles, Dallas and Atlanta.

International appointments

[illegible] International People. Set fax to fine

COMMODITIES AND AGRICULTURE

Trader claims third spot in world aluminium production league

By Kenneth Gooding, Mining Correspondent

Trans-World Metals has become the world's third-largest aluminium producer. This startling revelation came yesterday from Mr Alan Bekhor, managing director of the UK based group that was previously best known as one of the world's biggest traders of the metal.

At the first World Aluminium conference organised by the Financial Times and the CRU International consultancy organisation, Mr Bekhor pointed out that Trans-World with Russian associates controlled more than 50 per cent of two of the biggest Russian aluminium smelters: Bratsk and Sayansk.

It had gained a similar position in the Krasnoyarsk smelter but was controversially removed from the register of shareholders. If Trans-World still held that stake it would challenge Alcoa as the world's biggest aluminium producer, Mr Bekhor pointed out in a paper provocatively called: "Can a trader become a producer".

Mr Bekhor explained that his group had no real alternative because it had built up such a big trading position in Russia for alumina (aluminium oxide) aluminium. Explaining the decision to buy the Krasnoyarsk shares, he said: "We knew that these shares were potentially useless pieces of paper. We knew that there would be no dividends for years to come. We knew that there could be no capital appreciation and that the money to pay for them might just as well be written off. We knew we only had a few days to raise the money. So, what did we do? Why, naturally, we bought them.

"We bought them because we simply could not afford to run the risk that these shares passed into the wrong hands. We already had a great deal of money at risk with the plant. We had the continuity of a profitable business to protect. Under any circumstances, we were not prepared to let new owners take control. So more by default than by design, we became shareholders ourselves."

Mr Bekhor said that such opportunities for western groups in Russia were virtually gone. "Most of the plants have passed through major restructuring and privatisation, have acquired a framework of stable ownership and management control. Western companies have now either made their move or stayed aloof. By now they are either in or out, or beaten."

Trans-World has now turned its attention to Kazakhstan where it is involved in a US$1.2bn project to build a new aluminium smelter and expand the existing alumina complex.

Other speakers at the conference painted a picture of an industry poised for substantial growth and with dynamic companies reshaping themselves to harvest the potential benifts.

Mr George Haymaker, chairman of Kaiser Aluminum, the US group, recalled that aluminium had been dubbed "the middle class metal" because demand rises with standards of living. He said if emerging markets with a per capita income of US$5,000 moved up to $10,000, global aluminium capacity would have to be lifted from the present 20m tonnes to nearly 50m tonnes.

Kaiser was contributing to increasing capacity at existing plants with a system in which minicomputers helped operate potlines at smelters. Already this system, Celtrol 11, had been installed in 14 smelters controlling nearly 10 per cent of world production capacity. Kaiser's retrofit technology would also be used in a joint venture recently signed with China National Nonferrous Metals Industry Corporation, "representing the first significant privatisation of the Chinese aluminium smelting industry".

Mr Jim Lennon, analyst at Macquarie Bank Group, said that, in spite of planned expansions, China would have a growing need for imported aluminium. Between 350,000 and 400,000 tonnes a year would be imported by the year 2,000, he suggested.

India was also facing a boom in aluminium demand, according to Mr A.S.K. Agarwala, president of Hindalco Industries. India's requirement for primary aluminium would be about 1m tonnes by 2000 compared with today's capacity of 670,000 tonnes. Hindalco hoped to help fill the gap by expanding annual capacity at one smelter by 32,000 tonnes to 242,000 tonnes and by building a 250,000 tonnes new smelter with associated power plant and downstream activities. This project, still in feasibility stage, would cost about $2bn.

Mr Yousuf A Al-Shirawi, former Minister of Development and Industry, Bahrain, said the Gulf States were ready for new aluminium capacity. Production in the area had got off to a shaky start 30 years ago because big aluminium companies refused to become involved, but the area now had its own expertise. However, forecasts that the region would be producing 2m tonnes a year by 2000 were unlikely to be met.

Even the US, until recently on no-one's list of potential new smelter sites, was now back in the running following deregulation of the power industry there, according to Mr Kenneth Peterson, chief executive of Columbia Aluminium.

The news from Russia was not so positive. According to Mr Christopher Stobart, managing director of Resource Strategies, London, the Russian smelting industry was no longer a low cost industry and would never again be a low cost industry until some major re-structuring and cost-cutting was done. But, even though the industry was apparently unprofitable, it did not mean it was on the verge of closure.

Mr Jean-Pierre Rodier, chairman of Pechiney of France, said described the group's "Challenge" programme to become as efficient as its rivals in all key areas and said it was on schedule. He was sure it would achieve than the previously promised annual savings of FF1.5bn by 1999. Mr Jochen Schirner, chairman of VAW Aluminium, described the reorganisation of his group into business units, more flexible to deal with market pressures.

Biotech offers best hope for a hungry world

Genetic crop modification will be necessary to keep up with population growth

FARMER'S VIEWPOINT

By David Richardson

Now that the UK government has banned meat and bonemeal from inclusion in animal feeds, those who formulate such rations have been forced to seek alternative sources of protein. Fishmeal is a traditional favourite, but as quota-controlled British fishermen are well aware there is a world shortage of fish, so that which is available is expensive.

Soyabeans have been a key source of protein in many Asian countries for years, of course. And the meal that is left after oil has been extracted for human consumption is a rich source of protein for most farm animals. It was the obvious choice to replace meat and bonemeal and its purchase price has risen on UK markets from £130 to £220 a tonne since the M & B ban was imposed, thereby significantly raising the cost of feeds. World reserves of soyabeans are, like those of other grains, extremely low and it would clearly be beneficial if production could be increased.

In the short term high prices will encourage farmers who can grow soyabeans to plant more of them; but suitable land combined with the required hot climate is limited. So, as the global population doubles in the next 50 years it will be down to plant breeders to produce varieties that will yield much bigger crops. The only realistic chance of that happening is by the use of genetic modification.

Acknowledged world leader in agriculture biotechnology is American chemical company, Monsanto. At its St Louis laboratories recently I tried, not for the first time, to get to grips with exactly how it is possible to modify a plant genetically. The simple explanation I liked best was that it involved taking the DNA – the basic genetic material in the cells of every living organism – and "cutting and pasting" segments from one organism to another.

It is not that simple of course, but it helped me to appreciate the accuracy that it is possible for scientists to achieve. Monsanto claims, moreover, that "our plant biotechnology future is not a matter of chance. It is a matter of choice. We choose to be committed to improving our environment and to enhancing the lives of future generations". The implication behind that claim includes the assurance that not only will biotechnology enable yields to be increased but that this will be able to be achieved safely, with fewer pesticides and therefore with less damage to the environment than is caused by current production methods.

But that is still some years away. Some of the first genetically modified plants from Monsanto do not claim to increase yields but to enable more efficient weed control. The company has, for instance, introduced what it calls a Roundup Ready soyabean. A gene has been introduced into its DNA which is tolerant to Roundup – a highly efficient and safe general purpose weedkiller originally patented by Monsanto. This means that crops can be sprayed against weed infestation just once during their lifetime; that the crop itself will be unaffected and that near perfect weed control can be achieved. Left uncontrolled the weeds would significantly reduce production.

Monsanto is developing similar traits of Roundup tolerance in sugar beet, oil seed rape and maize. Agronomically the concept is attractive – always provided the tolerant varieties do not "volunteer", that is grow in the following crop on the same land from seeds accidentally spilled the previous year, and themselves become weeds that cannot be controlled. This possible danger has been identified by the National Farmers' Union of England and Wales, which otherwise broadly welcomes the potential contribution biotechnolgy can make to farm production.

The NFU's working party on the subject went on to recognise that "the uptake of this technology by primary producers, food manufacturers and retailers would be influenced significantly by public perception of biotechnology"; a reflection, no doubt, of the sensitivities of UK consumers to food scares. British farmers are anxious to avoid subscribing to any more perceptions that might alienate customers.

In America such concerns are largely discounted and even the need to label genetically modified food is questioned. "All we are doing," said some US scientists I spoke to, "is to continue the work that plant breeders have been doing for hundreds of years, except that we can do it faster and more accurately." My response was to say "OK, so explain to the public what you have done and then label the produce so that they can see you have nothing to hide". The debate continues.

Meanwhile the range of genetically modified crops ready or almost ready for commercial use continues to grow. A Monsanto subsidiary has developed a Russet Burbank potato, which is 100 per cent resistant to attack by Colorado beetles and therefore does not need to be sprayed with insecticide. Similarly the company is in course of developing varieties of cotton whose leaves poison one of the greatest pests of cotton – bollworms. One mouthful and the worms curl up and die, eliminating all of the many applications of chemical normally sprayed on the crop to protect it from the bollworm.

Work is progressing on varieties of wheat that will be resistant or tolerant to the many fungi which attack it. Melons, rice, tomatoes, peppers and so on are all the subjects of ongoing scientific developments which should lead to better varieties which require fewer chemicals.

Having seen such scientific developments in Britain, America and several other countries I do not pretend to fully understand the procedures but I have become convinced of the ethics of those who are controlling the work. I believe that genetic modification does hold virtually the only key to feeding the world in the future. But there is still an enormous job to do to educate and explain to consumers that food from such plants is likely to be more, not less, safe and environment friendly than what we eat at present.

MARKET REPORT

Cocoa futures tumble

London Commodity Exchange COCOA futures tumbled to end sharply lower yesterday with nearby delivery positions sustaining the biggest losses and September hitting the closely-watched £1,117-a-tonne support level.

Traders said the sentiment was also weighed down by continued liquidation in New York ahead of July contract's first notice day.

The September contract in London recovered marginally to close at £1,119 a tonne, still down £20 from Friday.

The London market has been underpinned by a key gap between £1,132 and £1,117 for the September position; and said yesterday's sharp retracement to the bottom end of that territory could spark a strong upward technical reaction.

"It's going to make the market stronger when it goes up again," said one.

Talk of a late and smaller Ivory Coast harvest this year has kept cocoa market sentiment upbeat of late.

LCE robusta COFFEE futures rebounded from early losses to end higher on light speculative buying, but gains were centred on deferred months, traders said.

Compiled from Reuters

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1458.5-9.5	1496-7
Previous	1484.5-85.5	1520-21
High/low		
AM Official	1484-5	1495-6
Kerb close		
Open int.	na	
Total daily turnover	na	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1230-35	1265-70
Previous	1240-50	1275-80
High/low		
AM Official	1210-20	1250-55
Kerb close		
Open int.	na	
Total daily turnover	na	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	772.5-3.5	780-1
Previous	774-5	779-80
High/low		
AM Official	761-1.5	770-1
Kerb close		
Open int.	na	
Total daily turnover	na	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	7655-65	7765-70
Previous	7745-50	7850-60
High/low		
AM Official	7676-7	7775-85
Kerb close		
Open int.	na	
Total daily turnover	na	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6170-80	6175-80
Previous	6210-20	6210-15
High/low		
AM Official	6180-60	6160-60
Kerb close		
Open int.	na	
Total daily turnover	na	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	999-1000	1025-6
Previous	1008.5-9.5	1033-34
High/low		
AM Official	993-4	1019-9.5
Kerb close		
Open int.	na	
Total daily turnover	na	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2080-90	1990-1
Previous	2140-50	2035-40
High/low		
AM Official	1990-90	1920-30
Kerb close		
Open int.	na	
Total daily turnover	na	

■ LME AM Official £/$ rate: 1.5448
LME Closing £/$ rate: na

Spot: 1.5453 3 mths: 1.5443 6 mths: 1.5446 9 mths: 1.5455

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	99.85	-0.15	101.00	98.00	671	2,288
Jul	93.90	+0.05	96.20	90.70	7,977	16,117
Aug	93.05	-0.30	95.30	95.00	141	1,284
Sep	91.85	+0.50	93.80	87.80	5,894	11,676
Oct	92.05	+0.60	94.00	92.70	48	987
Nov	91.95	+0.90	94.00	92.70	45	814
Total					17,928	[illegible]

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	385.00-385.40		
Opening	384.30-384.70		
Morning fix	384.55	249.109	481.264
Afternoon fix	385.00	249.272	481.058
Day's High	385.30-385.70		
Day's Low	384.20-384.60		
Previous close	384.00-384.30		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.36	6 months	4.26
2 months	4.31	12 months	4.08
3 months	4.31		

Silver Fix	p/troy oz.	US cts equiv.
Spot	334.45	516.60
3 months	338.50	522.60
6 months	342.90	529.45
1 year	351.70	543.30

Gold Coins	$ price	£ equiv.
Krugerrand	385-388	250-252
Maple Leaf	394.70-397.20	
New Sovereign	85-88	55-57

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	385.0	+0.3	385.0	384.3	55	93
Jul	385.9	+0.2	-	-	-	-
Aug	387.3	+0.2	387.8	386.3	26,772	91,000
Oct	390.1	+0.2	390.4	389.5	180	7,800
Dec	392.9	+0.2	393.4	392.0	842	27,439
Feb	395.8	+0.2	-	-	136	8,179
Total					24,697	167,281

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	394.8	-1.0	396.5	394.5	1,384	13,682
Oct	397.7	-1.0	399.0	397.1	552	11,345
Jan	400.7	-1.3	-	-	15	1,294
Apr	403.7	-1.6	405.0	405.0	5	1,755
Jul	407.0	-1.6	-	-	-	-
Total					1,956	27,999

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	130.65	-0.80	132.00	132.00	88	148
Sep	131.35	-0.70	132.50	131.05	292	6,829
Dec	132.45	-0.75	133.50	133.50	2	805
Jan	134.80	-0.70	-	-	-	105
Total					382	7,985

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	517.1	+1.0	-	-	2	1
Jul	518.2	+1.0	520.0	512.0	30,799	54,023
Aug	520.9	+1.0	-	-	17	17
Sep	523.7	+1.1	526.5	517.0	6,845	30,476
Dec	531.7	+1.2	533.5	527.5	771	13,036
Mar	539.9	+1.3	539.0	537.0	29	5,920
Total					22,284	113,809

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	21.60	+1.28	21.65	20.34	32,963	60,701
Aug	20.43	+0.93	20.70	19.50	16,536	65,209
Sep	19.65	+0.66	19.95	18.94	4,245	37,264
Oct	19.18	+0.50	19.40	18.62	1,449	27,209
Nov	18.90	+0.40	18.95	18.40	143	21,629
Dec	18.66	+0.31	18.90	18.24	898	35,070
Total					59,355	388,482

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	18.45	+0.60	18.73	17.89	20,972	85,170
Sep	18.07	+0.57	18.25	17.58	7,525	21,492
Oct	17.77	+0.48	17.85	17.38	1,797	17,856
Nov	17.52	+0.39	17.57	17.40	232	5,010
Dec	17.38	+0.38	17.42	17.05	1,306	11,789
Jan	17.23	+0.36	17.25	17.00	360	12,118
Total					31,129	168,884

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	53.05	+1.50	53.45	51.61	7,908	20,278
Aug	53.45	+1.39	54.10	52.10	3,778	17,699
Sep	53.85	+1.29	54.20	52.80	899	9,560
Oct	54.20	+1.09	54.70	53.60	161	5,471
Nov	54.60	+0.89	54.70	53.95	284	6,729
Dec	55.10	+0.84	55.60	54.50	598	18,775
Total					13,951	98,586

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	163.50	+6.50	164.75	159.50	7,619	18,864
Aug	162.25	+5.00	163.50	158.25	3,959	11,312
Sep	162.25	+4.25	163.00	158.75	1,843	6,253
Oct	163.00	+4.25	162.75	158.75	123	2,558
Nov	163.50	+4.25	158.75	159.75	10	1,530
Dec	164.00	+4.25	164.25	161.00	480	9,166
Total					13,931	53,713

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	2.530	+0.021	2.530	2.490	8,010	25,864
Aug	2.590	+0.023	2.595	2.555	4,959	31,348
Sep	2.600	+0.048	2.600	2.545	1,731	18,575
Oct	2.575	+0.040	2.580	2.525	1,452	17,061
Nov	2.575	+0.027	2.575	2.545	783	11,482
Dec	2.630	+0.030	2.630	2.600	879	13,054
Total					19,808	169,275

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	61.05	+1.55	61.60	59.60	9,957	23,585
Aug	60.30	+1.48	61.00	58.80	3,479	19,519
Sep	58.85	+1.35	59.40	57.90	1,214	9,405
Oct	58.50	+1.25	58.50	56.00	174	2,347
Nov	55.00	+1.15	55.00	54.75	12	1,108
Dec	54.10	+1.10	54.10	53.75	35	1,224
Total					14,948	55,637

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	115.25	-3.00	116.75	115.25	111	782
Sep	113.25	-0.20	113.25	113.25	2	380
Nov	114.85	-0.30	115.00	114.75	133	3,013
Jan	116.85	-0.30	-	-	-	1,004
Mar	118.75	-0.40	-	-	-	285
May	121.00	-0.25	-	-	-	131
Total					246	5,596

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	492.00	-4.00	503.50	491.00	9,795	33,225
Sep	497.50	-3.00	507.00	497.00	4,912	24,477
Dec	507.00	-3.50	510.00	505.00	3,440	20,808
Mar	508.00	-6.25	518.00	506.00	210	2,835
May	482.00	+5.00	485.00	483.00	5	108
Jul	437.00	+2.00	430.00	435.00	35	1,898
Total					18,365	83,[illegible]

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	450.50	-5.25	471.30	456.00	22,875	88,158
Sep	378.00	-7.5	386.00	376.00	12,885	89,714
Dec	345.50	-2.75	359.00	344.00	28,117	165,722
Mar	350.25	-3	363.00	350.00	1,336	21,581
May	351.50	-4	363.00	351.50	177	4,183
Jul	350.25	-4.25	361.00	350.00	416	4,400
Total					65,960	366,894

■ BARLEY LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	105.75	-0.45	106.00	106.00	2	73
Nov	107.75	-0.60	108.25	107.75	21	716
Jan	109.75	-0.75	-	-	-	141
Mar	111.75	-0.60	-	-	-	41
May	113.00	-0.65	-	-	-	6
Total					23	977

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	773.00	+3.25	782.00	768.00	12,182	45,560
Aug	787.50	+3.75	777.00	763.75	4,028	21,457
Sep	749.25	+6.5	758.00	749.00	951	7,667
Nov	736.75	+5.5	750.00	736.00	18,197	87,790
Jan	743.25	+6	755.00	742.00	254	6,927
Mar	748.00	+4.5	754.60	748.00	64	3,504
Total					35,940	181,105

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	25.66	+0.11	25.97	25.60	6,286	27,697
Aug	25.84	+0.12	26.15	25.80	2,877	16,858
Sep	26.05	+0.12	26.32	25.98	1,248	7,916
Oct	26.20	+0.1	26.49	26.19	599	5,774
Dec	26.46	+0.17	26.78	26.38	3,381	24,814
Jan	26.65	+0.2	26.80	26.73	140	1,927
Total					14,848	88,258

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	238.2	+2.4	240.0	237.3	8,958	34,204
Aug	237.6	+2	239.5	236.9	4,730	15,076
Sep	236.1	+1.8	238.5	236.0	1,311	9,199
Oct	231.3	+1.8	234.5	230.8	325	4,515
Dec	230.4	+1.7	234.0	230.0	2,617	22,060
Jan	230.3	+1.8	232.4	230.3	50	2,254
Total					18,224	90,228

■ POTATOES LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	85.0	-	-	-	-	-
Mar	110.0	-	-	-	-	-
Apr	148.8	+6.5	149.5	148.0	82	1,231
May	159.0	-	-	-	-	3
Jun	162.5	-	-	-	-	-
Total					82	1,234

■ FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	1237	-4	1235	1235	4	548
Jul	1190	-2	1190	1189	23	2,051
Aug	1178	-12	-	-	-	161
Oct	1295	-15	1305	1295	23	1,457
Jan	1310	-15	1310	1310	8	208
Apr	1300	-13	1300	1300	4	85
Total					61	4,621

	Close	Prev
BFI	1268	1276

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1093	-21	1108	1092	472	8,888
Sep	1119	-20	1132	1117	1,020	48,305
Dec	1043	-20	1062	1044	2,305	38,382
Mar	1036	-9	1060	1036	1,070	38,625
May	1050	-7	1067	1049	1,470	20,705
Jul	1060	-8	1069	1062	30	10,182
Total					7,172	176,088

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1378	-28	1400	1375	6,832	1,921
Sep	1417	-22	1433	1416	8,885	36,023
Dec	1438	-14	1447	1437	1,720	19,398
Mar	1463	-10	1485	1460	433	13,404
May	1463	-7	1473	1466	104	6,711
Jul	1474	-8	1480	1480	-	5,008
Total					18,794	86,814

■ COCOA (ICCO) (SDR's/tonne)

Jun 14	Price	Prev. day
Daily	1083.83	1088.05

■ COFFEE LCE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1840	+10	1840	1818	1,088	12,830
Sep	1777	+8	1780	1755	1,046	9,793
Nov	1745	+13	1750	1725	817	3,977
Jan	1715	+17	1721	1700	149	2,224
Mar	1673	+15	-	-	-	855
May	1675	+25	-	-	-	66
Total					3,398	29,394

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	120.70	+2.75	121.60	117.60	2,690	7,824
Sep	116.85	+1.75	117.75	114.75	2,419	11,313
Dec	114.10	+1.60	114.50	112.20	424	4,010
Mar	112.20	+1.45	112.60	110.50	82	1,036
May	110.85	+0.85	111.00	110.50	32	308
Jul	110.05	+0.85	-	-	-	53
Total					5,647	25,482

■ COFFEE (ICO) (US cents/pound)

Jun 14		Prev. day
Comp. daily	[illegible]	105.53
15 day average	104.63	104.47

■ WHITE SUGAR LCE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	387.0	+0.2	387.4	386.0	889	9,707
Oct	348.0	+1.8	348.5	345.5	676	6,755
Dec	334.5	+1.4	335.1	333.0	343	3,836
Mar	329.6	+2.0	328.7	326.0	36	4,092
May	328.1	+1.6	327.0	326.8	2	2,080
Aug	325.5	+2.2	325.5	325.5	8	751
Total					1,754	27,884

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	11.67	-	11.72	11.61	6,142	46,029
Oct	11.23	+0.07	11.26	11.13	4,730	48,227
Mar	10.84	-	10.85	10.80	3,295	44,470
May	10.07	+0.02	10.69	10.63	702	11,432
Jul	10.53	+0.01	10.55	10.52	106	10,306
Oct	10.46	+0.04	10.48	10.45	50	4,573
Total					15,025	154,558

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	77.93	+1.64	78.50	76.50	8,483	12,914
Oct	77.30	+0.30	78.00	77.25	2,334	5,982
Dec	76.87	-0.03	77.50	76.70	8,359	29,805
Mar	77.95	+0.05	78.60	77.90	787	5,580
May	78.63	+0.25	78.95	78.63	223	2,899
Jul	79.10	+0.15	-	-	89	1,419
Total					18,437	61,436

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	122.75	+1.30	122.90	121.60	637	9,210
Sep	119.95	+0.60	120.35	119.30	433	7,078
Nov	116.10	-	116.75	116.10	158	1,902
Jan	114.50	+0.30	115.00	114.30	149	3,762
Mar	116.20	+0.75	116.25	115.90	14	278
May	117.35	[illegible]	-	-	54	183
Total					1,496	22,483

FUTURES DATA
All futures data supplied by CMS.

Tea
The Tea Broker's Association reports improved and more general demand. Landed bright East Africans sold well at firm to often dearer levels. Coloury mediums were a strong feature and prices advanced 2/4 pence. Offshore good demand at dearer rates. Quotations: Best available 131p/kg., good 126p/kg., good medium 116p/kg., medium 110p/kg., low medium 82p/kg. The highest price realised this week was 131p for a Kenya pf.1.

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ REUTERS (Base: 18/9/31=100)

Jun 17	Jun 14	month ago	year ago
2043.1	2057.5	2122.6	2293.3

■ CRB Futures (Base: 1967=100)

Jun 14	Jun 13	month ago	year ago
249.05	249.91	258.59	-

■ GSCI Spot (Base: 1970=100)

Jun 14	Jun 13	month ago	year ago
198.44	199.42	210.74	180.13

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	63.100	-0.600	63.300	62.950	2,520	4,975
Aug	65.975	-0.350	66.400	65.825	5,141	39,091
Oct	68.850	-0.400	67.150	66.750	1,751	24,326
Dec	64.775	-0.325	65.050	64.750	723	11,486
Feb	63.800	-0.300	64.100	63.775	582	11,029
Apr	66.575	-0.125	66.800	66.575	158	3,358
Total					831	41,398

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	60.375	-0.500	61.300	60.300	1,099	3,405
Jul	56.750	-1.000	58.075	56.700	3,646	8,591
Aug	53.575	-1.075	55.075	53.550	2,321	11,443
Oct	48.675	-1.100	50.200	48.500	731	8,021
Dec	51.925	-0.925	53.250	51.850	346	5,763
Feb	74.200	-0.450	75.350	74.400	131	1,551
Total					8,299	37,841

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	72.750	-2.000	74.700	72.750	1,171	4,136
Aug	70.175	-1.875	72.900	70.100	1,382	2,882
Feb	77.050	-0.875	78.900	78.850	384	813
Mar	78.000	-0.350	-	78.000	1	59
May	80.000	-0.400	-	-	8	84
Total					2,916	7,894

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Jul	Oct	Jul	Oct
1450	-	-	-	-
1500	-	-	-	-
1550	-	-	-	-

■ COPPER (Grade A) LME	Jul	Oct	Jul	Oct
1900	-	-	-	-
2000	-	-	-	-
2100	-	-	-	-

■ COFFEE LCE	Jul	Sep	Jul	Sep
1800	49	115	9	138
1850	19	86	29	169
1900	5	60	65	205

■ COCOA LCE	Jul	Sep	Jul	Sep
1075	22	80	4	36
1100	8	66	15	47
1125	2	54	34	60

■ BRENT CRUDE IPE	Jul	Aug	Jul	Aug
1750	62	-	-	
1800	38	-	32	
1850	46	-	-	

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$17.46-7.52	-0.91
Brent Blend (dated)	$18.77-8.81	+0.98
Brent Blend (Aug)	$18.57-8.59	+0.95
W.T.I.	$20.42-0.44x	+1.10

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$205-207	+4
Gas Oil	$168-169	+6
Heavy Fuel Oil	$94-96	+4
Naphtha	$174-176	+3
Jet fuel	$191-192	+6
Diesel	$170-171	+6

■ NATURAL GAS (Pence/therm)

Bacton (Jul)	10.90-11.50	+0.5

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

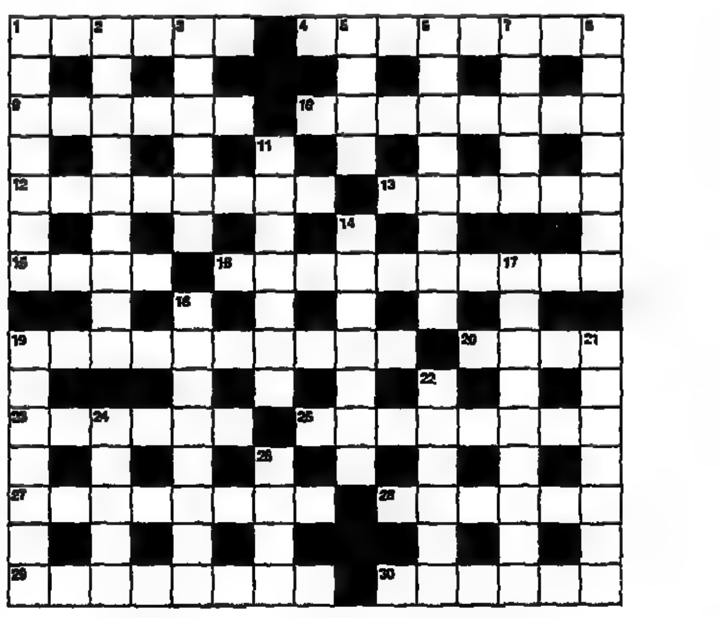
Gold (per troy oz)‡	$385.20	+1.05
Silver (per troy oz)‡	518.50c	+11.5
Platinum (per troy oz.)	$393.25	+0.85
Palladium (per troy oz.)	$129.90	+1.15
Copper	116.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	15.12r	-0.24
Tin (New York)	290.50	-3.0
Cattle (live weight)	101.59p	-1.46*
Sheep (live weight)	121.81p	-20.54*
Pigs (live weight)†	113.78p	+2.58*
Lon. day sugar (raw)	$298.8	+0.2
Lon. day sugar (wte)	$403.0	+1.0
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	Unq	
Wheat (US Dark North)	Unq	
Rubber (Jul)♥	100.25p	
Rubber (Aug)♥	100.25p	
Rubber (KL RSS No1)	371.50m	+2.5
Coconut Oil (Phil)§	880.0v	+10.0
Palm Oil (Malay.)§	$505.0	-2.5
Copra (Phil)§	$557.0w	+10.0
Soyabeans (US)	212.0z	+1.0
Cotton Outlook'A' Index	82.80c	-0.10
Wooltops (64s Super)	428p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. x Aug. v May/Jun. w Jun/Jul. ♥ London Physical. § CIF Rotterdam. ‡ Bullion market close. * Change on week. †Based on 429 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,097 Set by DANTE



ACROSS

1 Very loud in order to annoy (6)
4 Thieves commonly said to take ladies' underwear (8)
9 Sheep doctor going round Ireland (6)
10 Not very bright, so extra-shy (8)
12 A 20-franc piece lost at Waterloo (8)
13 Show how a lever works (6)
15 Wild rose – the symbol of love (4)
16 Used by riders – but not riding breeches (6,4)
19 Light diversion? (10)
20 Egg on a steak, say (4)
23 Not a bird, it chirps and flies (6)
25 Damaged feed tins became a breeding ground of pests (8)
27 It could go up in the depression (8)
28 One way to loaf is to walk leisurely (6)
29 What scores of young people are in? (8)
30 Working out Easter may be a problem (6)

DOWN

1 Love of fiction (7)
2 Not to be made light of (9)
3 Nelly is confused about love, and without boyfriends (6)
5 Welshman uplifted by church body (4)
6 Went round the bend when trapped? (8)
7 Note overdue transport (5)
8 Pays for lights (7)
11 He made engravings of boar and wild hart (7)
14 Meets Sid and Joan when out (7)
17 Mariner's dependant (9)
18 No racehorse alive is one (4,4)
19 He used to get a shilling for his subscription (7)
21 Swimmer who may develop into a jumper (7)
22 Recent change of heart (6)
24 Lengthy communication (5)
26 Left in charge but desert one's post (4)

Solution to Saturday's prize puzzle on Saturday June 29.
Solution to yesterday's prize puzzle on Monday July 1.

INTERNATIONAL CAPITAL MARKETS

Worries about US rates flatten bund yield curve

By Antonia Sharpe in London and Lisa Bransten in New York

Jitters about interest rates kept European government bond markets in a narrow range yesterday. Analysts said heightened expectations of a rise in US rates at the July FOMC meeting were the main source of nerves in Europe.

"Markets are likely to trade negatively until the FOMC meeting," said Ms Marie Owens Thomsen, chief economist at BIP-Dresdner in Paris. She said spreads should hold current levels unless the dollar weakened significantly.

Worries about a rise in US rates have triggered a dramatic flattening in the German bund yield curve, with the spread between five-year and 10-year bunds shrinking to 115 basis points from a peak of 135 basis points just 10 days ago, said Mr David Hewitt, bond market strategist at Tokyo Mitsubishi International in London. During the same time, the spread between two-year and five-year paper has come in to 123 basis points from 135 basis points.

Although the curve flattening was thought to be overdone, the German market has become increasingly negative about a further cut in headline interest rates. Ms Phyllis Reed, European bond strategist at BZW, said euro D-Mark futures were predicting rates of more than 3.8 per cent by December, a half-point rise from current three-month rates.

Ms Reed said that in addition to a possible tightening by the Fed, signs of an upturn in the German economy would be a another deterrent to further easing by the Bundesbank.

Yesterday, bunds bounced back on the results of the Russian elections but analysts remained nervous about their near-term direction, particularly if money supply data due this week are disappointing. On Liffe, the September bund future eased 0.06 to 94.49 in turnover of 84,712 contracts.

GOVERNMENT BONDS

■ French bonds remained vulnerable after their fall late last week, mainly due to a weaker franc and signs of short-selling by international investors in the futures market.

BIP-Dresdner's Ms Owens Thomsen said foreigners were probably using the futures market because they had already sold down their cash positions.

She noted that net sales of French government bonds in the first quarter of this year, of FFr91bn, had beaten the previous peak in the first quarter of 1994, and that just 15 per cent of the market was now in foreign ownership, compared with about one-third in Germany.

On Matif, the September 10-year notional government bond future fell 0.28 to 120.68 in volume of 104,434 contracts.

Although the cash market was not affected yesterday, analysts said selling pressure could spill over. The cash market's resistance left French government bonds still yielded 4 basis points less than bunds.

■ UK gilts traded quietly ahead of a busy week for economic data, starting with May PSBR figures due today. The market will be disappointed if the figure is above £3bn.

Mr Simon Briscoe, UK economist at Nikko, said the data were likely to spark a debate about funding. He noted that the Bank of England was meeting gilt-edged market-makers yesterday and investors today to discuss funding over the next quarter. He believes sentiment on the subject will improve in coming months, after being a "big negative" over past months.

The market should also get details today of next week's gilts auction. The overwhelming forecast is for a £3bn five-year floating-rate note priced to yield Libid less ⅛.

On Liffe, the September long gilt future eased ⅛ to 104⅜ in volume of 21,499 contracts.

■ US Treasury prices were nearly flat in quiet trading early yesterday as traders held positions at the beginning of a week with little to offer in the way of new economic data.

Near midday, the 30-year Treasury was up 1/32 at 86 23/32 to yield 7.081 per cent, the two-year note was down 1/32 at 99 1/32, yielding 6.291 per cent and the September 30-year Treasury bond future was up ⅛ at 107.

Wall Street remains divided on whether the Federal Reserve will raise interest rates at the FOMC meeting next month, and there is little economic data due this week to sway opinion.

Rising commodity prices and a weaker dollar put some pressure on bonds yesterday. The Knight Ridder/Commodity Research Bureau index was up 1.75 to 250.80 as crude oil prices rose in early trading.

The dollar slipped against both the yen and the D-Mark, changing hands at Y108.86 and DM1.5165 compared with Y109.21 and DM1.5270 late on Friday.

Swift opens up to ETC providers

By George Graham, Banking Correspondent

Swift, the international financial message system, has agreed to open its network to electronic trade confirmation service providers, raising the prospect of closer links between banking and securities settlement systems.

The decision would allow leading ETC providers – the London Stock Exchange, the International Securities Market Association and Thomson Electronic Settlements – to connect their services to Swift's network, which links 5,300 financial institutions in 137 countries. ETC systems allow brokers and fund managers to check details of a trade before it goes to settlement.

However, Swift says the ETC vendors will have to adapt their software to its standards, while the three vendors, who already have links with each other, feel Swift should adapt to their protocol. The ETC providers also worry that Swift is trying to gain access to their customer base among securities companies, without reciprocating by allowing them access to its bank customers. They want the ability to send messages to banks which offer custody services through Swift.

"They've got all the banks, and we've got all the fund managers and brokers," one ETC provider said.

But some fund managers believe the Swift decision does open the way for them to move to the holy grail of the financial back office: straight-through processing, in which trade, trade confirmation and settlement can all be handled electronically without having to stop for details to be re-entered manually.

"This decision creates an opportunity for us to achieve true straight-through processing," said Mr Richard Flack, director of central data services at UBS Asset Management in London.

Ms Anna Hannon, vice-president of Citibank, also backed the move. "The industry has long needed a common facility to verify trade details prior to settlement. It will eliminate many of the very costly fails and unwanted risks inherent today in cross-border securities activity," she said.

Bayerische Vereinsbank taps the four-year sterling sector

By Conner Middelmann

The primary eurobond market was slightly subdued yesterday, with a crop of medium-sized transactions aimed largely at retail investors.

The sterling sector, which has been the focus of reviving attention by retail accounts in continental Europe, saw a £125m four-year offering for Bayerische Vereinsbank priced to yield 12 basis points over gilts.

"We have seen continued interest in the shorter end of the sterling sector, where spreads on secondary market bonds have been tightening further recently," said a syndicate official at lead manager ABN Amro Hoare Govett.

While the 1999 and 1998 maturities had become "a bit saturated" by recent supply, the 2000 area was still going well, he said.

In the US dollar sector, Rabobank Nederland, the triple A rated Dutch bank, launched $200m of two-year bonds priced at a spread of only one basis point over Treasuries and aimed at European retail investors.

INTERNATIONAL BONDS

"Dollar redemptions are high this year, the currency is strong and Rabobank is very popular with retail investors – this should go well," said a dealer with lead manager Bear Stearns. The spread widened to 4 basis points after the bonds were freed to trade.

Compagnie Parisienne de Reescompte, the French financial institution, issued $200m of floating-rate notes priced to yield 15 basis points over Libor at the re-offer price, markedly less than the 21 basis point margin on its debut floating-rate note issue last summer, said CS First Boston, joint lead with BNP.

"The supply of floaters offering double-digit spreads over Libor has been very limited and there is a huge amount of liquidity and hunger for yield out there," a syndicate official said.

In the D-Mark sector, KfW International Finance issued DM300m of four-year bonds yielding a mere 3 basis points over bunds. Nonetheless, lead manager ABN Amro reported good demand from Swiss retail investors and from some institutions in Luxembourg and the UK.

Also in the D-Mark sector, Venezuela Investments offered yield-hungry retail investors a special treat. The special-purpose vehicle swapped Venezuelan Brady bonds into D-Marks and issued DM100m of eurobonds with a hefty 15 per cent coupon, which carry the same credit risk as the underlying Bradys.

Similar transactions have been done with Argentine and Brazilian Bradys in the past. Lead manager Paribas Capital Markets reported strong demand from retail accounts in Switzerland, Italy, the Benelux and Germany.

● Standard & Poor's assigned a long-term rating of BBB+ to the $175m of bonds issued by the City of Naples, and has raised its long-term rating on CEZ Finance, the financing arm of the Czech power utility, from BBB to BBB+.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Cie Parisienne de Reescompte‡	200	(a)	99.89R	Jul 2001	0.175R	-	BNP/CS First Boston
Rabobank Nederland(a)	200	6.375	100.00R	Dec 1998	0.15R	+1(6⅝%-98)	Bear Stearns International
D-MARKS							
KfW International Finance§	300	5.25	99.86R	Jul 2000	0.225R	+4(6¾%-00)	ABN Amro Hoare Govett
Venezuela Investments(b)	100	15.00#	99.00R	Apr 2007	1.50R	-	Paribas Capital Markets
SWISS FRANCS							
Niederoesterreichische LB Hypo	100	4.25	102.40	Jul 2000	1.75	-	SBC Warburg
STERLING							
Bayerische Vereinsbank(a)	125	7.50	99.50R	Dec 2000	0.225R	+12(8%-00)	ABN Amro Hoare Govett
FRENCH FRANCS							
Compagnie Bancaire(c)‡	2bn	(c1)	99.60R	Jul 2003	0.15R	-	CCF
LUXEMBOURG FRANCS							
CCBP§	2bn	6.75	102.38	Dec 2004	2.00	-	BGL
ITALIAN LIRE							
Bayerische Vereinsbank(d)	150bn	(d1)	101.725	Jul 2001	1.875	-	Credito Italiano
AUSTRALIAN DOLLARS							
Australian Industry Dev Corp	100	9.125	101.895	Jul 2006	2.125	-	ABN Amro Hoare Govett
PESETAS							
Official Credit Institute‡	10bn	(e)	100.00	Jun 1999	-	-	NatWest Mkts, Madrid Brch

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ★Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) 3-mth Libor +12½bp. b) Secured by $ denominated Brady bonds. Amortises in 21 equal instalments beginning 2/7/97. Recommended re-offer. c) Puttable from Jul 97 to Apr 98 at 99.40%. Callable and puttable from Jul 97 at 99.43% rising 0.03% per quarter. c) Callable on 24/7/98 at par. d1) 8¼% to 24/7/98, then 9¼%. e) 6-mth Libor +7½bp. § Long 1st coupon. s) Short 1st coupon.

Morgan Stanley plans Taiwan fund joint venture

By Lawrence Eyton in Taipei

Morgan Stanley, the US investment bank, intends to set up a mutual fund company in Taiwan with partners including the ruling Kuomintang (KMT) party.

Mr Liu Tai-ying, chairman of the KMT's business affairs committee, said Morgan Stanley would set up the company in partnership with the KMT's Central Investment Company and Grand Cathay Securities.

A committee member said the three investors would establish the company with NT$300m (US$10.4m) and then seek investment up to a total of NT$3bn before entering the NT$200bn market. The proportion of seed capital to be contributed by each partner has yet to be decided.

A KMT official said yesterday that Morgan Stanley had been negotiating with the party for two months. Initially, Morgan Stanley wanted to set up its own mutual fund company in Taiwan, but after consideration decided it needed local understanding of the market and sought out the KMT, the official said.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	02/06	107.0580	+1.090	8.92	8.97	9.05
Austria		6.125	02/06	98.2700	+0.090	6.86	6.48	6.49
Belgium		7.000	05/06	100.9800	-0.250	6.87	6.74	6.74
Canada *		7.000	12/05	93.7900	+0.170	7.88	7.79	7.97
Denmark		8.000	03/06	102.6400	-0.340	7.60	7.49	7.48
France	BTAN	5.750	03/01	99.8750	-0.380	5.77	5.57	5.80
	OAT	7.250	04/06	104.3500	-0.260	6.63	6.62	6.51
Germany Bund		6.250	04/06	97.1700	+0.020	6.65	6.58	6.51
Ireland		8.000	08/06	101.0000	-	7.84	7.81	7.71
Italy		9.500	02/06	98.8700	-	9.62†	9.40	9.64
Japan	No 140	6.600	06/01	119.4852	+0.130	2.26	2.32	2.51
	No 182	3.000	09/05	98.6726	-	3.20	3.26	3.41
Netherlands		6.000	01/06	95.9400	-0.140	6.58	6.42	6.42
Portugal		11.875	02/05	117.1600	+0.150	8.93	8.88	9.12
Spain		8.800	04/06	97.4300	+0.100	9.19	9.21	9.28
Sweden		6.000	02/05	85.3521	+0.610	8.45	8.44	8.64
UK Gilts		8.000	12/00	102-09	-3/32	7.39	7.31	7.51
		7.500	12/06	98-20	-4/32	8.13	8.07	8.17
		9.000	10/08	106-25	-5/32	8.24	8.21	8.27
US Treasury *		6.875	05/06	99-19	+6/32	6.93	6.96	6.87
		6.000	02/26	86-15	+6/32	7.09	7.09	7.08
ECU (French Govt)		7.500	04/05	102.3800	-0.190	7.12	6.97	6.99

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
Prime rate	8¼	One month	-	Two year	6.22
Broker loan rate	7	Two month	-	Three year	6.46
Fed.funds	5⅜	Three month	5.21	Five year	6.72
Fed.funds at intervention	-	Six month	5.46	10-year	6.93
		One year	5.77	30-year	7.08

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	122.54	122.52	+0.04	122.66	122.52	16,104	30,117
Sep	121.00	120.74	-0.22	121.16	120.60	6,159	138,721
Dec	119.76	119.50	-0.22	119.84	119.42	918	15,514

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jul	Calls Aug	Calls Sep	Puts Jul	Puts Aug	Puts Sep
120	-	-	-	0.17	0.46	0.75
121	0.24	0.64	0.95	0.63	0.84	1.16
122	0.03	0.23	0.50	1.26	-	1.77
123	0.01	0.06	0.23	-	-	-
124	-	0.02	0.08	-	-	-

Est. vol. total, Calls 10,873 Puts 14,780. Previous day's open int., Calls 121,422 Puts 128,677.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	94.67	94.59	+0.04	94.79	94.42	114369	191563
Dec	93.84	93.72	+0.10	93.84	93.64	231	1311

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Jul	Calls Aug	Calls Sep	Calls Dec	Puts Jul	Puts Aug	Puts Sep	Puts Dec
9450	0.27	0.74	0.98	0.96	0.18	0.66	0.87	1.74
9500	0.07	0.48	0.71	0.76	0.48	0.89	1.12	2.04
9550	0.01	0.29	0.50	0.59	0.92	1.20	1.41	2.37

Est. vol. total, Calls 9008 Puts 18857. Previous day's open int., Calls 138642 Puts 178954

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	114.74	114.81	+0.25	114.89	114.40	51686	55766
Dec	-	114.16	+0.25	-	-	0	151

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Sep	Calls Dec	Puts Sep	Puts Dec
11450	1.66	2.13	1.35	2.47
11500	1.38	1.90	1.57	2.74
11550	1.15	1.69	1.84	3.03

Est. vol. total, Calls 3852 Puts 4089. Previous day's open int., Calls 58855 Puts 47088

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	98.70	98.55	+0.23	98.89	98.53	46,572	32,624
Sep	98.19	97.98	+0.25	98.26	97.90	38,645	34,515

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	105-25	105-22	-	105-25	105-19	574	12482
Sep	104-25	104-18	-	104-25	104-13	26972	118425

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Jul	Calls Aug	Calls Sep	Calls Dec	Puts Jul	Puts Aug	Puts Sep	Puts Dec
104	0-46	1-17	1-40	1-51	0-08	0-48	1-02	2-13
105	0-10	0-48	1-06	1-24	0-36	1-10	1-32	2-50
106	0-01	0-25	0-44	1-02	1-27	1-51	2-06	3-26

Est. vol. total, Calls 505 Puts 1081. Previous day's open int., Calls 20084 Puts 24381

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	90.40	90.36	+0.12	90.40	90.36	266	2,544
Sep	90.00	89.86	-0.16	90.02	89.80	4,240	5,987

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	107-10	107-20	+0-08	107-21	107-08	21,169	54,446
Sep	106-24	107-00	+0-08	107-03	106-21	369,529	378,729
Dec	106-12	106-16	+0-07	106-17	106-07	1,317	13,287

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Sep	118.85	-	-	118.91	118.84	601	0
Dec	117.90	-	-	117.90	117.90	5	0

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Mon Jun 17	Day's change %	Fri Jun 14	Accrued interest	xd adj. ytd		Low coupon yield Jun 17	Low Jun 14	Low Yr. ago	Medium coupon yield Jun 17	Medium Jun 14	Medium Yr. ago	High coupon yield Jun 17	High Jun 14	High Yr. ago
1 Up to 5 years (22)	121.77	0.09	121.76	2.68	4.25	5 yrs	7.60	7.50	7.97	7.65	7.54	7.80	7.65	7.64	7.96
2 5-15 years (19)	144.25	-0.04	144.31	1.97	5.64	15 yrs	8.32	8.30	8.16	8.34	8.33	8.18	8.41	8.37	8.25
3 Over 15 years (9)	158.29	-0.01	158.30	2.84	5.43	20 yrs	8.40	8.37	8.15	8.41	8.40	8.19	8.45	8.41	8.28
4 Irredeemables (6)	179.37	-0.83	180.86	1.91	6.12	Irred.†	8.43	8.36	8.21						
5 All stocks (56)	140.31	-0.02	140.34	2.40	5.13										

Index-linked							Inflation 5% Jun 17	Jun 14	Yr. ago	Inflation 10% Jun 17	Jun 14	Yr. ago
6 Up to 5 years (1)	197.11	0.02	197.08	1.27	4.43	Up to 5 yrs	2.78	2.78	3.27	1.20	1.19	1.59
7 Over 5 years (11)	185.06	0.08	184.90	1.58	1.61	Over 5 yrs	3.86	3.89	3.65	3.66	3.88	3.44
8 All stocks (12)	185.20	0.08	185.05	1.55	1.66							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Jun 17	Jun 14	Jun 13	Jun 12	Jun 11	Yr ago	High*	Low*
Govt. Secs. (UK)	92.20	92.04	92.44	92.27	92.44	93.09	96.34	91.59
Fixed Interest	111.40	111.66	111.66	111.58	111.64	112.09	115.23	110.74

* for 1996. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

GILT EDGED ACTIVITY INDICES

	Jun 14	Jun 13	Jun 12	Jun 11	Jun 10
Gilt Edged bargains	77.3	75.9	77.9	86.2	74.4
5-day average	78.1	81.2	86.7	85.1	83.9

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on June 17

	Issued	Bid	Offer	Chg.	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	95⅝	95⅞	+⅛	7.38
[illegible]					
Sweden 8 97	2500	105	105¼	-⅛	4.18
United Kingdom 7¼ 97	5500	104	104⅛		4.02
[illegible]					
Abbey Natl Treasury 8 03 £	1000	99	99⅛	-⅛	8.10
British Land 8⅞ 23 £	150	88⅞	89¼	+⅛	10.33
[illegible]					

FLOATING RATE NOTES: [illegible]

CONVERTIBLE BONDS: [illegible]

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UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Shorts (Lives up to Five Years)							
Treas 2pc 1996		0.91	5.80	219⅛	—	219⅛	210⅞
Conversion 10pc 1996		9.83	5.72	101⅝	—	104⅛	101⅝
[illegible]							

Other Fixed Interest

[illegible]

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CURRENCIES AND MONEY

MARKETS REPORT

D-Mark rallies after Yeltsin election success

By Philip Gawith

The D-Mark rallied slightly on the foreign exchanges yesterday following the solid showing by President Boris Yeltsin in the first round of the Russian presidential elections.

Political risk had weighed on the German currency in the run-up to the elections because the physical proximity of the two countries was seen as making Germany vulnerable to any setbacks in Russia, such as the election again of a Communist-style leadership.

The D-Mark is also benefiting from an apparent reassessment in the market of the outlook for German and US interest rates, which affects the Dollar/D-Mark rate.

The dollar closed yesterday in London at DM1.5177, from DM1.5229. Against the yen it finished at Y108.845, from Y108.725.

Trading was generally quiet with price movements extremely subdued, although this was partly attributable to the market waiting on the release later this week of the German M3 figures, and the Beige book in the US, both of which have the potential to influence interest rate and currency sentiment.

The firmer dollar helped the pound, with the trade-weighted index closing at 85.8, from 85.6. Against the D-Mark the pound closed at DM2.3448, from DM2.3408. Against the dollar it finished at \$1.5455 from \$1.537.

■ While market sentiment towards the dollar remains bullish, there are increasing rumblings which do not augur well for the US currency.

One such portent emerged in the Bundesbank's monthly report. Until recently the bank had continued to call for a stronger dollar, but the latest report suggests it believes most of the dollar's correction against the D-Mark has taken place. "It is no longer the case that the Bundesbank is actively seeking a stronger dollar," said Mr Jeremy Hawkins, chief economist at the Bank of America in London.

Aside from official comments, he pointed to two other events which suggest some sort of reassessment about the outlook for the D-Mark. One was the stable performance of the German currency in the run-up to the Russian elections, notwithstanding some opinion polls which might have been expected to cause some nervousness.

The second factor concerns interest rate expectations. Mr Hawkins said that the evidence of this lay in the tightening last week of ⅛-¼ per cent in German cash rates, despite the widespread expectation of a "good" M3 number which would allow a cut in the repo rate. "People think that the German economy is over the worst and that we have seen the last official rate cut," said Mr Hawkins.

Mr Elliot Dix, trader at Signet Bank in Richmond, Virginia, reaches a similar conclusion, from a different angle. He says that there is a "re-thinking of some of the issues in the market" underway. "People will be a little bit more sceptical about the dollar."

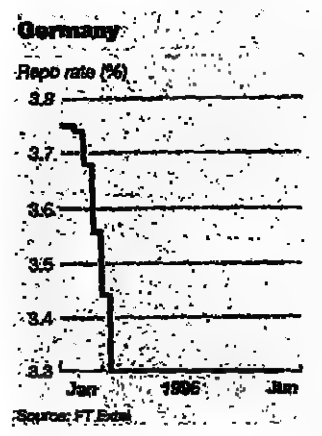
Mr Dix believes that with the dollar having flattered to deceive many times in recent years, there is no reason why it should not revert to its bad habits of old. "When people start getting too clear the dollar is strong, it is time to start looking at the negatives."

■ Tied in to all of this is the whole fate of the European single currency project. Mr Paul Chertkow, head of global currency research at UBS in London, says: "EMU is contingent on a steady recovery in the dollar against the D-Mark and low interest rates in Germany." He believes that the possibility of fading growth rates towards the end of the third quarter could well re-ignite a bout of currency speculation.

Ms Alison Cottrell, analyst at PaineWebber in London, argues that "for the Bundesbank, the major challenge of the coming months will be preventing the economic recovery from being aborted by an appreciating D-Mark."

She paints a picture of a central back forced to conduct policy against the backdrop of markets which, accustomed to recession, have become scared of growth. Ms Cottrell predicts that the Bundesbank will use the repo as a weapon to curb D-Mark strength when the market, unable to distinguish "strong" from "higher than expected" data, pushes bond yields and the D-Mark higher.

"A central bank still able to draw a distinction between the two concepts will be unwilling to jeopardise nascent and non-inflationary recovery with interest rate hikes."



■ **Pound in New York**

Jun 17	Latest	Prev. close
£ spot	1.5450	1.5370
1 mth	1.5445	1.5385
3 mth	1.5440	1.5381
1 yr	1.5449	1.5365

■ **OTHER CURRENCIES**

Jun 17	£	$
Czech Rp	42.8877 - 42.9634	27.7580 - 27.7880
Hungary	230.900 - 231.052	149.450 - 149.500
Iran	[illegible] - 4635.00	3000.00 - 3000.00
Kuwait	0.4630 - 0.4640	0.2997 - 0.3002
Poland	4.1839 - 4.1899	2.7080 - 2.7110
Russia	[illegible] - 7821.05	5054.00 - 5057.00
U.A.E.	5.6746 - 5.6769	3.6729 - 3.6732

POUND SPOT FORWARD AGAINST THE POUND

Jun 17		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.5046	+0.0327	981 - 109	16.5201	16.4519	16.4733	2.3	16.3983	2.6	-	-	105.0
Belgium	(BFr)	48.2535	+0.0993	287 - 783	48.3370	48.0460	48.1485	2.6	47.9385	2.6	46.9386	2.7	106.8
Denmark	(DKr)	9.0422	+0.0164	386 - 458	9.0547	9.0090	9.0279	1.9	8.9969	1.9	8.8769	1.8	107.5
Finland	(FM)	7.1959	-0.0048	[illegible] - 025	7.2350	7.1580	7.1915	0.7	7.1834	0.7	-	-	[illegible]
France	(FFr)	7.9565	+0.0156	537 - 573	7.9855	7.9225	7.9428	1.9	7.9177	1.9	7.8051	1.9	109.0
Germany	(DM)	2.3453	+0.0047	444 - 461	2.3501	2.3350	2.3406	2.4	2.3295	2.7	2.2841	2.6	108.5
Greece	(Dr)	371.998	+0.431	820 - 172	372.665	370.649	-	-	-	-	-	-	67.3
Ireland	(I£)	0.9717	-0.0003	711 - 722	0.9732	0.9685	0.9712	0.6	0.97	0.7	0.9655	0.6	99.4
Italy	(L)	2378.08	+1.09	652 - 961	2387.41	2371.63	2384.81	-3.3	2395.78	-3.0	2429.01	-2.1	78.5
Luxembourg	(LFr)	48.2535	+0.0993	287 - 783	48.3370	48.0480	48.1485	2.6	47.9385	2.6	47.9386	1.6	106.8
Netherlands	(Fl)	2.6256	+0.0053	[illegible] - 280	2.6319	2.6163	2.6202	3.0	2.6069	3.0	2.5500	2.9	106.9
Norway	(NKr)	10.0678	+0.0368	607 - 748	10.1295	9.9957	10.0593	1.0	10.0423	1.0	9.9586	1.1	98.4
Portugal	(Es)	241.569	+0.268	453 - 685	242.399	241.053	241.994	-2.1	242.859	-2.2	-	-	94.7
Spain	(Pta)	198.155	+0.319	054 - 257	198.535	197.420	198.415	-1.6	198.93	-1.6	200.39	-1.1	80.3
Sweden	(SKr)	10.2944	+0.0196	[illegible] - 085	10.3485	10.2446	10.2947	0.0	10.2948	0.0	10.2927	0.0	89.9
Switzerland	(SFr)	1.9312	+0.0067	302 - 322	1.9332	1.9255	1.9262	3.1	1.9164	3.3	1.8672	3.3	110.8
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	85.8
Ecu	-	1.2410	+0.0021	405 - 414	1.2436	1.2378	1.2397	1.3	1.2388	1.4	1.2234	1.4	-
SDR†	-	1.06429	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5451	+0.0083	427 - 455	1.5484	1.5347	-	-	-	-	-	-	-
Brazil	(R$)	1.5471	+0.0084	467 - 475	1.5480	1.5372	-	-	-	-	-	-	-
Canada	(C$)	2.1115	+0.0101	108 - 122	2.1130	2.0965	2.1106	0.4	2.1071	0.8	2.0991	0.6	84.3
Mexico	(New Peso)	11.7184	+0.0414	126 - 242	11.8765	11.6469	-	-	-	-	-	-	-
USA	($)	1.5469	+0.0083	450 - 465	1.5465	1.5350	1.5448	0.4	1.5443	0.2	1.545	0.0	97.0
Pacific/Middle East/Africa													
Australia	(A$)	1.9817	+0.0092	508 - 825	1.9836	1.9677	1.9843	-1.6	1.9893	-1.8	1.9848	-1.7	93.7
Hong Kong	(HK$)	11.9023	+0.0619	805 - 880	11.9702	11.8912	11.9852	0.8	11.9436	0.7	11.9236	0.3	-
India	(Rs)	53.9296	+0.2997	116 - 471	54.2020	53.6030	-	-	-	-	-	-	-
Israel	(Shk)	5.0373	+0.0214	339 - 408	5.0420	5.0030	-	-	-	-	-	-	-
Japan	(Y)	168.193	+1.086	095 - 290	168.400	167.330	167.466	5.2	165.978	5.3	159.569	5.1	134.3
Malaysia	(M$)	3.8557	+0.021	543 - 571	3.8572	3.8311	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2888	+0.0075	872 - 908	2.2905	2.2760	2.2936	-2.6	2.3033	-2.5	2.3371	-2.1	106.1
Philippines	(Peso)	40.4524	+0.2173	019 - 230	40.5248	40.2608	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.7953	+0.031	942 - 964	5.7991	5.7580	-	-	-	-	-	-	-
Singapore	(S$)	2.1762	+0.0108	751 - 773	2.1774	2.1638	-	-	-	-	-	-	-
South Africa	(R)	6.7219	+0.0292	130 - 307	6.7342	6.6833	-	-	-	-	-	-	-
South Korea	(Won)	1234.35	+10.55	399 - 470	1235.08	1222.87	-	-	-	-	-	-	-
Taiwan	(T$)	42.7447	+0.2141	347 - 547	42.7707	42.4530	-	-	-	-	-	-	-
Thailand	(Bt)	39.1098	+0.2289	457 - 738	39.1790	38.9390	-	-	-	-	-	-	-

† Rates for Jun 14. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jun 17		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P Morgan Index
Europe													
Austria	(Sch)	10.6805	-0.0364	784 - 832	10.7160	10.6960	10.6613	2.2	10.6193	2.3	10.4358	2.3	104.8
Belgium	(BFr)	31.2270	-0.104	180 - 360	31.3850	31.1910	31.172	2.1	31.067	2.2	30.517	2.3	106.4
Denmark	(DKr)	5.8518	-0.0209	502 - 530	5.8852	5.8484	5.8441	1.5	5.8271	1.7	5.7581	1.6	106.8
Finland	(FM)	4.6568	-0.0283	535 - 602	4.6990	4.6399	4.6506	1.7	4.6383	1.6	4.5928	1.4	82.7
France	(FFr)	5.1484	-0.0176	480 - 487	5.1675	5.1435	5.1414	1.6	5.1272	1.6	5.0594	1.7	108.4
Germany	(DM)	1.5177	-0.0052	174 - 180	1.5258	1.5155	1.5152	2.0	1.5094	2.2	1.4812	2.4	107.9
Greece	(Dr)	240.735	-1.02	660 - 810	242.140	240.530	242.41	-8.3	245.78	-8.3	259.735	-7.9	66.8
Ireland	(I£)	1.5904	+0.0091	897 - 910	1.5912	1.5805	1.591	-0.4	1.5918	-0.4	1.5834	0.4	-
Italy	(L)	1538.95	-7.6	820 - 970	1548.00	1536.50	1543.7	-3.7	1551.95	-3.4	1574.6	-2.3	75.7
Luxembourg	(LFr)	31.2270	-0.104	180 - 360	31.3850	31.1910	31.174	2.0	31.0675	2.0	30.587	2.0	106.4
Netherlands	(Fl)	1.6999	-0.0058	994 - 004	1.7091	1.6962	1.6968	2.4	1.6894	2.5	1.6577	2.5	106.4
Norway	(NKr)	6.5153	-0.0113	118 - 188	6.5665	6.4896	6.5123	0.5	6.5068	0.5	6.4703	0.7	97.7
Portugal	(Es)	156.300	-0.87	250 - 350	156.800	156.240	156.645	-2.4	157.235	-2.5	159.38	-2.0	94.8
Spain	(Pta)	128.235	-0.485	190 - 280	128.760	128.160	128.465	-2.2	128.915	-2.1	130.456	-1.7	80.0
Sweden	(SKr)	6.6620	-0.0232	571 - 668	6.7000	6.6569	6.673	-2.0	6.6905	-1.7	6.7325	-1.1	89.2
Switzerland	(SFr)	1.2498	-0.0011	493 - 502	1.2555	1.2478	1.2463	3.4	1.2388	3.5	1.2053	3.6	110.8
UK	(£)	1.5453	+0.0083	450 - 455	1.5468	1.5350	1.5446	0.4	1.5443	0.2	1.545	0.0	85.2
Ecu	-	1.2453	+0.0047	450 - 455	1.2481	1.2411	1.2461	-0.7	1.2477	-0.8	1.2568	-0.9	-
SDR†	-	0.69177	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9996	-	995 - 997	0.9996	0.9995	-	-	-	-	-	-	-
Brazil	(R$)	1.0012	-	011 - 013	1.0014	1.0010	-	-	-	-	-	-	-
Canada	(C$)	1.3655	-0.0008	652 - 657	1.3670	1.3645	1.3663	0.1	1.3658	0.0	1.3694	-0.2	83.7
Mexico	(New Peso)	7.5835	-0.014	810 - 860	7.5960	7.5800	7.745	-25.6	7.93	-18.3	9.6935	-27.8	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	96.0
Pacific/Middle East/Africa													
Australia	(A$)	1.2829	-0.0009	898 - 894	1.2894	1.2819	1.2848	-1.9	1.2884	-1.7	1.2971	-1.9	85.2
Hong Kong	(HK$)	7.7420	-0.0015	415 - 425	7.7435	7.7328	7.7427	-0.1	7.7448	-0.1	7.7715	-0.4	-
India	(Rs)	34.9000	-	000 - 000	35.1050	34.7000	35.05	-5.2	35.355	-5.2	36.826	-5.5	-
Israel	(Shk)	3.2559	-0.0037	582 - 615	3.2654	3.2499	-	-	-	-	-	-	-
Japan	(Y)	108.845	+0.12	800 - 890	109.210	108.780	108.4	4.9	107.5	4.9	103.76	4.7	135.0
Malaysia	(M$)	2.4952	+0.0002	947 - 957	2.4957	2.4943	2.4961	-0.4	2.5022	-1.1	2.5257	-1.2	-
New Zealand	(NZ$)	1.4810	-0.0083	804 - 819	1.4823	1.4802	1.4841	-2.5	1.4899	-2.4	1.5145	-2.3	-
Philippines	(Peso)	26.1850	-	500 - 200	26.2200	26.1500	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7504	-0.0001	503 - 505	3.7505	3.7503	3.7508	-0.1	3.7515	-0.1	3.7548	-0.1	-
Singapore	(S$)	1.4083	-0.0007	078 - 088	1.4089	1.4073	1.4048	3.0	1.3998	2.7	1.3733	2.5	-
South Africa	(R)	4.3500	-0.0045	450 - 550	4.3700	4.3400	4.3975	-13.1	4.4678	-12.8	4.825	-10.9	-
South Korea	(Won)	798.800	+2.55	700 - 900	799.000	796.600	-	-	-	-	-	-	-
Taiwan	(T$)	27.6620	+0.065	600 - 640	27.6690	27.6500	27.667	-0.2	27.672	-0.1	-	-	-
Thailand	(Bt)	25.3420	+0.012	370 - 470	25.3470	25.3370	25.4407	-4.7	25.6445	-4.8	26.527	-4.7	-

† SDR rate per $ for Jun 14. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jun 14: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

June 17	Over night	One month	Three mths	Six mths	One year	Lomb. Inter.	Dis. rate	Repo rate
Belgium	3¼	3⅛	3⅜	3⅞	3⅞	7.00	2.50	-
week ago	3⅜	3⅜	3¼	3⅞	3⅞	7.00	2.50	-
France	3⅜	3⅞	3⅞	4¼	4¼	3.60	-	5.60
week ago	3⅞	3⅞	3⅞	3⅞	4⅛	3.60	-	5.60
Germany	3⅛	3⅞	3⅜	3⅞	3⅜	4.50	2.50	3.30
week ago	3⅞	3⅞	[illegible]	3¼	[illegible]	4.50	2.50	3.30
Ireland	5¼	5⅜	5⅛	5⅜	5⅜	-	-	6.25
week ago	5⅜	5⅜	5⅜	5⅛	5⅛	-	-	6.25
Italy	9⅛	9⅛	8½	8⅞	[illegible]	-	8.00	9.30
week ago	9⅛	9⅛	8⅞	8½	8⅞	-	9.00	9.35
Netherlands	2⅜	2⅜	2⅞	3⅛	3⅛	-	3.00	3.30
week ago	2⅜	2½	2⅞	2⅞	3⅛	-	3.00	3.30
Switzerland	1⅞	2⅛	2⅛	2⅞	2⅞	5.00	1.50	-
week ago	2⅛	2⅛	2⅞	2⅞	2⅜	5.00	1.50	-
US	5¼	5⅜	5⅛	5⅞	6⅛	-	5.00	-
week ago	5⅛	5⅜	5⅜	5⅞	[illegible]	-	5.00	-
Japan	⅞	⅞	½	⅞	⅞	-	0.50	-
week ago	⅞	⅞	⅞	⅜	⅞	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5⅞	5⅛	5⅜	6⅛	-	-	-
week ago	-	5⅞	5⅞	5⅞	6⅛	-	-	-
US Dollar CDs	-	5.00	5.21	5.42	5.80	-	-	-
week ago	-	5.00	5.17	5.40	5.88	-	-	-
ECU Linked Ds	-	4⅛	4⅛	4⅞	4⅜	-	-	-
week ago	-	4⅛	4⅜	4⅜	4½	-	-	-
SDR Linked Ds	-	3⅛	3⅜	3⅞	3⅞	-	-	-
week ago	-	3⅜	3⅜	3⅞	3⅞	-	-	-

$ LIBOR interbank fixing rates are offered rates for \$10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo, Barclays and National Westminster.
Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jun 17	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3⅛ - 3⅛	3⅛ - 3⅛	3⅞ - 3¼	3⅞ - 3⅞	[illegible]	[illegible]
Danish Krone	3⅞ - 3⅞	4⅛ - 3⅞	4 - 3⅞	4⅛ - 3⅞	[illegible]	[illegible]
D-Mark	3⅞ - 3¼	3⅞ - 3⅞	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	2⅞ - 2⅞	2⅞ - 2⅞	2⅞ - 2⅞	2⅞ - 2⅞	[illegible]	[illegible]
French Franc	3⅞ - 3⅞	3⅞ - 3⅞	3⅞ - 3⅞	3⅞ - 3⅞	[illegible]	[illegible]
Portuguese Esc.	7⅜ - 7⅛	7⅞ - 7⅞	7⅞ - 7⅛	7⅞ - 7⅛	[illegible]	[illegible]
Spanish Peseta	7⅞ - 7⅛	7⅞ - 7⅜	7⅞ - 7⅞	7⅛ - 7⅛	[illegible]	[illegible]
Sterling	5⅞ - 5⅞	5⅞ - 5⅞	5⅞ - 5⅞	5⅞ - 5⅞	[illegible]	[illegible]
Swiss Franc	1⅞ - 1⅞	[illegible] - 2⅛	2⅛ - 2⅛	[illegible] - 2⅛	[illegible]	[illegible]
Can. Dollar	4⅞ - 4⅞	4⅜ - 4⅞	4⅞ - 4⅞	4⅞ - 4⅜	[illegible]	[illegible]
US Dollar	5⅛ - 5⅛	5⅞ - 5⅛	5⅞ - 5⅛	5⅞ - 5⅛	[illegible]	[illegible]
Italian Lira	9⅛ - 9⅛	9⅛ - 9⅛	[illegible] - 8⅞	8⅞ - 8⅞	[illegible]	[illegible]
Yen	⅛ - ⅛	½ - ⅛	⅛ - ⅛	⅛ - ½	[illegible]	[illegible]
Asian $Sing	2⅞ - 2⅛	2⅞ - 2⅞	2⅞ - 2⅞	2⅛ - 2⅞	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ **THREE MONTH PIBOR FUTURES** (MATIF) Paris interbank offered rate (FFr 5m)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.97	95.98	-0.04	95.99	95.96	4,772	39,352
Sep	95.78	95.72	-0.10	95.78	95.62	42,701	58,703
Dec	95.59	95.56	-0.15	95.63	95.47	10,537	34,537

■ **THREE MONTH EUROMARK FUTURES** (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	96.59	96.58	-0.02	96.60	96.57	8553	134429
Sep	96.50	96.47	-0.02	96.53	96.45	56005	221528
Dec	96.25	96.19	-0.04	96.28	96.16	39585	201045
Mar	95.91	95.84	-0.04	95.94	95.78	41595	181927

■ **THREE MONTH EUROLIRA FUTURES** (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	91.15	91.13	-0.02	91.15	91.12	2183	26867
Sep	91.81	91.84	+0.05	91.85	91.74	20487	54477
Dec	92.08	92.09	+0.03	92.10	92.01	7791	26926
Mar	92.13	92.14	+0.03	92.16	92.05	3555	13343

■ **THREE MONTH EURO SWISS FRANC FUTURES** (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	97.39	97.38	-0.02	97.40	97.37	1271	15580
Sep	97.31	97.30	-0.02	97.38	97.25	9774	40217
Dec	97.11	97.09	-0.02	97.14	97.07	1946	16782
Mar	96.82	96.79	-0.01	96.82	96.78	231	7735

■ **THREE MONTH EUROYEN FUTURES** (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	99.20	99.20	+0.01	99.20	99.20	10	n/a
Dec	98.87	98.88	+0.03	98.88	98.87	865	n/a
Mar	98.58	98.58	+0.03	98.58	98.58	943	n/a

■ **THREE MONTH ECU FUTURES** (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.49	95.50	+0.02	95.49	95.46	278	6904
Sep	95.47	95.45	-	95.48	95.42	1695	8681
Dec	95.29	95.27	-0.02	95.29	95.23	186	3814
Mar	95.12	95.07	-0.02	95.12	95.00	278	2646

* LIFFE futures also traded on APT

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jun 17		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.74	16.49	4.860	2.015	4928	5.446	20.87	500.7	410.8	21.35	4.002	2.073	4.377	3.202	348.6	2.572
Denmark	(DKr)	53.38	10	8.799	2.593	1.075	2630	2.905	11.14	267.2	219.2	11.38	2.136	1.106	2.336	1.709	186.0	1.372
France	(FFr)	60.65	11.37	10	2.947	1.222	2989	3.302	12.66	303.7	249.1	12.93	2.427	1.257	2.655	1.942	211.4	1.560
Germany	(DM)	20.58	3.856	3.393	1	0.414	1014	1.120	4.294	103.0	84.52	4.388	0.820	0.426	0.901	0.659	71.73	0.529
Ireland	(I£)	49.64	9.302	8.185	2.413	1	2447	2.703	10.36	248.6	203.9	10.59	1.987	1.029	2.173	1.590	173.0	1.277
Italy	(L)	2.029	0.380	0.335	0.099	0.041	100.	0.110	0.423	10.16	8.335	0.433	0.081	0.042	0.089	0.065	7.073	0.052
Netherlands	(Fl)	18.37	3.442	3.029	0.893	0.370	905.2	1	3.833	91.97	75.45	3.917	0.735	0.381	0.804	0.588	64.03	0.472
Norway	(NKr)	47.91	8.979	7.901	2.329	0.965	2361	2.609	10	239.9	196.8	10.22	1.918	0.993	2.097	1.534	167.0	1.232
Portugal	(Es)	19.97	3.743	3.293	0.971	0.402	984.3	1.087	4.168	100.	82.04	4.259	0.799	0.414	0.874	0.639	69.62	0.514
Spain	(Pta)	24.34	4.562	4.014	1.183	0.490	1200	1.325	5.081	121.9	100.	5.192	0.974	0.505	1.066	0.780	84.86	0.626
Sweden	(SKr)	46.89	8.787	7.732	2.279	0.945	2311	2.553	9.786	234.8	192.6	10	1.877	0.972	2.052	1.501	163.5	1.206
Switzerland	(SFr)	24.99	4.683	4.120	1.214	0.503	1231	1.360	5.215	125.1	102.6	5.329	1	0.518	1.094	0.800	87.11	0.643
UK	(£)	48.25	9.042	7.956	2.345	0.972	2378	2.627	10.07	241.6	198.2	10.29	1.931	1	2.112	1.545	168.2	1.241
Canada	(C$)	22.85	4.281	3.767	1.110	0.460	1126	1.244	4.768	114.4	93.84	4.872	0.914	0.473	1	0.732	79.64	0.588
US	($)	31.23	5.852	5.150	1.518	0.629	1539	1.700	6.518	156.4	128.3	6.660	1.250	0.647	1.367	1	108.9	0.803
Japan	(Y)	28.69	5.376	4.730	1.394	0.578	1414	1.562	5.987	143.6	117.8	6.118	1.148	0.595	1.256	0.919	100.	0.738
Ecu		38.88	7.286	6.411	1.890	0.783	1916	2.117	8.114	194.7	159.7	8.292	1.556	0.806	1.702	1.245	135.5	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ **D-MARK FUTURES** (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.6584	0.6580	+0.0031	0.6595	0.6581	9,097	31,478
Sep	0.6592	0.6618	+0.0033	0.6630	0.6592	46,964	65,005
Dec	0.6658	0.6657	+0.0029	0.6663	0.6651	259	1,821

■ **SWISS FRANC FUTURES** (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.7980	0.7993	+0.0035	0.8018	0.7980	3,000	16,040
Sep	0.8025	0.8046	+0.0029	0.8074	0.8018	25,205	34,657
Dec	0.8066	0.8115	+0.0035	0.8113	0.8066	95	1,061

■ **JAPANESE YEN FUTURES** (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	0.9165	0.9170	+0.0005	0.9185	0.9165	11,219	27,891
Sep	0.9270	0.9289	+0.0007	0.9310	0.9270	35,634	64,333
Dec	0.9400	0.9410	+0.0009	0.9430	0.9400	48	3,569

■ **STERLING FUTURES** (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	1.5424	1.5430	+0.0080	1.5462	1.5424	2,578	32,460
Sep	1.5372	1.5418	+0.0076	1.5458	1.5372	10,994	40,690
Dec	1.5440	1.5420	+0.0070	1.5450	1.5420	21	93

UK INTEREST RATES

LONDON MONEY RATES

Jun 17	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6½ - 5½	5⅞ - 5⅞	5⅞ - 5⅞	5⅞ - 5⅞	5⅞ - 5⅞	6⅛ - 6⅛
Sterling CDs	-	-	5⅞ - 5⅞	5⅞ - 5⅞	5⅞ - 5⅞	6⅛ - 6
Treasury Bills	-	-	5⅞ - 5⅞	5⅞ - 5⅞	-	-
Bank Bills	-	-	5⅞ - 5⅞	5⅞ - 5⅞	5⅞ - 5⅞	-
Local authority deps.	5⅞ - 5⅞	5⅞ - 5⅞	5⅞ - 5⅞	5⅞ - 5⅞	6 - 5⅞	6⅛ - 6⅛
Discount Market deps	6¼ - 5⅞	5¾ - 5⅞	-	-	-	-

UK clearing bank base lending rate 5¾ per cent from June 6, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc. Ave. tender rate of discount on Jun 14, 5.6058pc. ECGD fixed rate Stg. Export Finance. Make up day May 31, 1996. Agreed rate for period Jun 26, 1996 to Jul 23, 1996, Schemes II & III 7.35pc. Reference rate for period May 1, 1996 to May 31, 1996, Schemes IV & V 6.104pc. Finance House Base Rate 6.5pc from Jun 1, 1996

■ **THREE MONTH STERLING FUTURES** (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	94.09	94.10	+0.01	94.10	94.09	6963	54481
Sep	94.15	94.13	-0.01	94.16	94.12	8529	82234
Dec	93.94	93.91	-0.02	93.95	93.89	8872	81138
Mar	93.56	93.51	-0.02	93.56	93.48	5008	55724
Jun	93.09	93.05	-0.02	93.09	93.04	4460	40721

Also traded on APT. All Open interest figs. are for previous day.

■ **SHORT STERLING OPTIONS** (LIFFE) £500,000 points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9400	0.10	0.19	0.19	0	0.06	0.26
9425	0	0.07	0.10	0.15	0.19	0.44
9450	0	0.02	0.04	0.40	0.39	0.63

Est. vol. total, Calls 650 Puts 481. Previous day's open int., Calls 169900 Puts 138510

BASE LENDING RATES

	%		%		%
Adam & Company	5.75	Duncan Lawrie	5.75	Royal Bk of Scotland	6.00
Allied Trust Bank	5.75	Exeter Bank Limited	7.00	●Singer & Friedlander	5.75
AIB Bank	5.75	Financial & Gen Bank	7.00	●Smith & Williamson Secs	5.75
●Henry Ansbacher	5.75	●Robert Fleming & Co	5.75	Scottish Widows Bank	5.75
Bank of Baroda	5.75	Girobank	5.75	TSB	5.75
Banco Bilbao Vizcaya	5.75	●Guinness Mahon	5.75	United Bank of Kuwait	6.00
Bank of Cyprus	5.75	Habib Bank AG Zurich	5.75	Unity Trust Bank Plc	5.75
Bank of Ireland	5.75	●Hambros Bank	5.75	Western Trust	5.75
Bank of India	5.75	Heritable & Gen Inv Bk	5.75	Whiteaway Laidlaw	5.75
Bank of Scotland	5.75	●Hill Samuel	6.00	Yorkshire Bank	5.75
Barclays Bank	5.75	C. Hoare & Co	5.75		
Brit Bk of Mid East	5.75	Hongkong & Shanghai	5.75	● Members of London Investment Banking Association	
●Brown Shipley & Co Ltd	5.75	Julian Hodge Bank	5.75	* In administration	
Citibank NA	5.75	●Leopold Joseph & Sons	5.75		
Clydesdale Bank	5.75	Lloyds Bank	5.75		
The Co-operative Bank	6.00	Meghraj Bank Ltd	5.75		
Coutts & Co	5.75	Midland Bank	5.75		
Credit Lyonnais	5.75	* Mount Credit Corp	6.00		
Cyprus Popular Bank	6.00	NatWestminster	5.75		
		●Rea Brothers	5.75		

EMS EUROPEAN CURRENCY UNIT RATES

Jun 17	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Netherlands	2.15214	2.14005	+0.00072	-0.56	1.60	4
Spain	162.493	161.608	+0.098	-0.55	1.79	4
Belgium	39.3960	39.3087	+0.0141	-0.22	1.46	2
Ireland	0.792214	0.791798	-0.002144	-0.05	1.29	0
Germany	1.91007	1.91080	+0.00075	0.04	1.19	-0
Austria	13.4383	13.4474	+0.006	0.07	1.16	-0
Portugal	195.792	196.912	+0.043	0.57	0.66	-4
Denmark	7.28580	7.36924	+0.00188	1.15	0.09	-8
France	6.40608	6.48501	+0.00099	1.23	0.00	-10
NON ERM MEMBERS						
Greece	292.867	303.335	+0.04	3.57	-2.26	-
Italy	2106.15	1943.83	+0.32	-7.70	9.69	-
UK	0.786652	0.814743	-0.001814	3.57	-2.35	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by the Financial Times.

■ **PHILADELPHIA SE £/$ OPTIONS** £31,250 (cents per pound)

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	PUTS Jun	PUTS Jul	PUTS Aug
1.510	2.51	2.67	2.98	-	0.24	0.48
1.520	1.55	1.92	2.32	-	0.40	0.77
1.530	0.57	1.26	1.71	-	0.68	1.15
1.540	-	0.74	1.21	0.36	1.16	1.65
1.550	-	0.45	0.85	1.30	1.80	2.25

Previous day's vol., Calls 15,157 Puts 10,444 . Prev. day's open int., Calls 205,860 Puts 193,160

■ **THREE MONTH EURODOLLAR** (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.42	94.41	-	94.42	94.41	45,533	290,318
Sep	94.14	94.13	-	94.14	94.12	68,636	395,832
Dec	93.78	93.78	-0.01	93.79	93.77	139,495	432,703

■ **US TREASURY BILL FUTURES** (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Jun	94.92	94.91	-0.01	94.92	94.91	167	4,274
Sep	94.65	94.65	-	94.66	94.64	293	5,886
Dec	94.37	94.37	-0.01	94.37	94.37	126	1,606

All Open interest figs. are for previous day

■ **EUROMARK OPTIONS** (LIFFE) DM1m points of 100%

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	CALLS Sep	PUTS Jun	PUTS Jul	PUTS Aug	PUTS Sep
9650	0.06	0.06	0.09	0.12	0	0.09	0.12	0.15
9675	0	0.01	0.02	0.04	0.19	0.29	0.30	0.32
9700	0	0	0	0.01	0.44	0.53	0.53	0.54

Est. vol. total, Calls 12630 Puts 9014. Previous day's open int., Calls 378756 Puts 411835

■ **EURO SWISS FRANC OPTIONS** (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9750	0	0.09	0.09	0.12	0.29	0.50
9775	0	0.03	0.04	0.37	0.48	0.70

Est. vol. total, Calls 0 Puts 0. Previous day's open int., Calls 12817 Puts 7027

■ **EUROLIRA OPTIONS** (LIFFE) L1000m points of 100%

Strike Price	CALLS Jun	CALLS Sep	CALLS Dec	PUTS Jun	PUTS Sep	PUTS Dec
9100	0.13	0.92	1.23	0	0.06	0.14
9125	0	0.71	1.03	0.12	0.12	0.19
9150	0	0.52	0.83	0.37	0.10	0.24

Est. vol. total, Calls 586 Puts 1650. Previous day's open int., Calls 50098 Puts 29559

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, MERCHANT

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ELECTRONIC & ELECTRICAL EQPT - Cont.

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

FOOD PRODUCERS - Cont.

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

INV TRUSTS SPLIT CAPITAL - Cont.

LEISURE & HOTELS - Cont.

OTHER FINANCIAL - Cont.

PROPERTY - Cont.

SUPPORT SERVICES - Cont.

AIM - Cont.

PAPER, PACKAGING & PRINTING

RETAILERS, FOOD

TELECOMMUNICATIONS

LIFE ASSURANCE

TEXTILES & APPAREL

MEDIA

RETAILERS, GENERAL

AMERICANS

PHARMACEUTICALS

CANADIANS

TOBACCO

TRANSPORT

SOUTH AFRICANS

OTHER INVESTMENT TRUSTS

OIL EXPLORATION & PRODUCTION

PROPERTY

RETAILERS, GENERAL - Cont.

INVESTMENT COMPANIES

WATER

SUPPORT SERVICES

AIM

OIL, INTEGRATED

OTHER FINANCIAL

LEISURE & HOTELS

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- • Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Figures or report awaited
- ♦ Rule 2.1(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- †† Rule 4.2(a) Irish incorporated non-listed companies.
- ‡ Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♦ Unregulated collective investment scheme

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
p Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment

F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1996.
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
N Dividend is paid in whole or part as a

FID (Foreign Income Dividend)
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xd ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion

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You can obtain the current annual/interim report of any company annotated with ♣. Please quote the code FT5108. Ring 0181 770 0770 (open 24 hours including weekends) or Fax 0181 770 3822. Reports will be sent the next working day, subject to availability.

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To order, call 0121 200 4678.
Reports published by ShareFinder Ltd.

FT Cityline

Up-to-the-second share prices are available by telephone from the FT Cityline service. See Monday's share price pages for details.
An international service is available for callers outside the UK, annual subscription £250 stg.
Call 0171 873 4378 for more information on FT Cityline.
For readers phoning from outside UK, please dial +44 in place of the first 0.
The share prices printed on these pages are also available on the internet at www.FT.com.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

Sarasin Funds Mngmt (Guernsey) Ltd

Schroder Investment Mngmt (Guernsey) Ltd

GUERNSEY (REGULATED)(**)

ANZ Mngmt Co (Guernsey) Ltd

Apollo Investment Management Ltd

IRELAND (SIB RECOGNISED)

LGT Asset Management Ltd - Contd.

IRELAND (REGULATED)(**)

Dynamic Pacific Portfolio Fund Plc

Egerton Capital European Fund Plc

Emerging Dynamic Fund Plc

Emerging Market Growth Fund Plc

F.I.T. Investment Trust Ltd (a)

Falcon Market Fund Plc

Frank Russell Investments (Ireland) Ltd (a)

ISLE OF MAN (SIB RECOGNISED)

Gartmore Intl Mngt (IoM) Ltd

Sun Life Management (IoM) Ltd

Ulster Bank Global Funds Plc

Unibank Scandinavian Fund Ltd

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

Lombard Odier (Jersey) Ltd

LUXEMBOURG (SIB RECOGNISED)

Fidelity Funds - Contd.

Fleming Group (a)

Schroder International Selection Fd (a)

LUXEMBOURG (REGULATED)(**)

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FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Credis Investment Funds - Contd.

Murray Universal, Sicav

NICAM Asia Pacific Umbrella Fund

Nikko Bank (Luxembourg) S.A.

Nikko Capital Management

Nomura Asian Infrastructure Fd SICAV

Pacific Basin Growth Fund

Pan-Holding SA

Pictet Group

CMI Insurance Co Ltd

Royal Life International - Contd.

Royal Skandia Life Assurance Ltd

Capital International

Cathay Investment Fund Limited

Cazenove Funds Management Ltd

Chameleon Funds Limited

Chesapeake Capital Corporation

Cheecor Indian Investment Company Ltd

The China Fund

The China Invest & Development Fd Ltd

Citibank Global Asset Mgmt (Asia) Ltd

Citizens Investment Trust Mgt Co Ltd

Global Asset Management - Contd.

McGinnis Global Fund Ltd

Regent Kingpin Capital Management Ltd

Republic Funds

Credit Commercial de France

The Dragon Fund Sicav

Fidelity Int Inv Mngt (Luxembourg) SA

Fidelity Investment (CI) Ltd

Fleming Group

Lloyds Bank Luxembourg

Lombard Odier Invest

Mercury Asset Management SA

Merrill Lynch Global Currency Bond Series

OTHER OFFSHORE FUNDS

Africa Emerging Markets Fund

Group One International Trst

Scudder, Stevens & Clark Inc

Selective Assets Series Fund Limited

The Thailand Fund

The Thailand Growth Fund

OFFSHORE INSURANCES

AXA Equity & Law Intl Life Assce Co

World Trust Fund

Johnson Fry Securities Ltd

MANAGED FUNDS NOTES

LONDON STOCK EXCHANGE

MARKET REPORT

Utilities bid hint helps revive flagging equities

By Steve Thompson,
UK Stock Market Editor

"It is quiet, it is hot, and most of us would rather be sitting in the garden with a glass of iced tea, or something stronger, than trying to drum up business in the stock market," was the view of one frustrated senior dealer yesterday.

The view summed up a disappointing day in the market, which made a brave effort to gain ground at the outset, only to run into small pockets of selling pressure, before edging higher again towards the close. The late gain came as rumours of another bid in the utilities sector began to circulate.

Talk suggested that an increased offer for Southern Water from Scottish Power was about to materialise, possibly as early as this morning, but certainly within the next couple of days.

Scottish Power's original offer for Southern Water was trumped by a higher bid from Southern Electric; specialists insist that both bidders are determined to be successful and, if necessary, would pay over the odds to win.

At the end of the session the FT-SE 100 index showed a 7.9 gain at 3,761.5, but pressure on the second liners, which lacked support for much of the day, saw the FT-SE Mid 250 index soften 2.4 to 4,462.2.

London received no help from a lethargic Wall Street, which opened slightly easier, rallied and then slipped away again just after European markets closed for the day.

There was no important economic data to give a lead to either Wall Street or London, but dealers said both markets could liven up later in the week. Wednesday sees the expiry of June stock options, while the Footsie future and index options expire on Friday.

This morning brings the publication of the UK public sector borrowing requirement for May, and in the US details of housing starts in May and non-farm productivity for the first quarter.

The UK retail sales figure for May, expected tomorrow, will be closely watched by the market. Retail shares have performed exceptionally well recently on increasing optimism that cuts in taxes and interest rates over recent months are making themselves felt in high street sales.

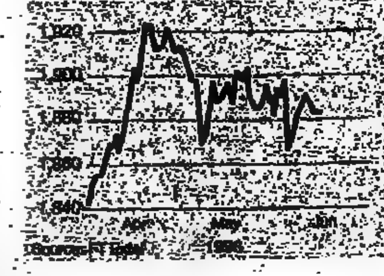
While a big rise in sales could give a fillip to retail stocks, the overall market might take fright at the inflationary consequences of a consumer spending spree.

The early rise in the market was helped by a firm opening in international bonds, with German bunds lifted by the election news from Russia, where Mr Boris Yeltsin emerged from the initial round with a small lead. Bunds gave a ragged performance at the end of last week, when markets showed unease at the possibility of a return of Communist rule in Russia.

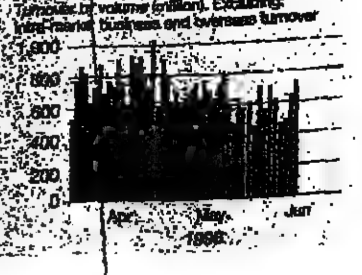
Late in the session, turnover was given a hefty push by a sizeable two-way programme trade, thought to have been executed by UBS. At the 6pm reading turnover was 712.2m shares.

That figure was boosted by a placing of 20m shares in 3i by Barclays Bank, hard on the heels of the sale by NatWest of 104m shares last Friday. Customer business on Friday was a hefty £2.41bn, inflated by the 3i placing.

FT-SE-A All-Share Index



Equity shares traded



Indices and ratios

FT-SE 100	3781.5	+7.9	FT Ordinary Index	2784.5	+1.8
FT-SE Mid 250	4462.2	-2.4	FT-SE-A Non Fins p/e	16.91	16.91
FT-SE-A 350	1901.1	+2.9	FT-SE 100 Fut Jun	3756.0	+11.0
FT-SE-A All-Share	1887.21	+2.83	10 yr Gilt yield	8.16	8.16
FT-SE-A All-Share yield	3.82	3.82	Long gilt/equity yld ratio:	2.21	2.20

Best performing sectors

1 Tobacco ... +1.8
2 Pharmaceuticals ... +1.4
3 Electronic & Elec ... +1.1
4 Transport ... +0.8
5 Consumer Goods ... +0.7

Worst performing sectors

1 Gas Distribution ... -2.2
2 Electricity ... -1.0
3 Alcoholic Beverages ... -0.7
4 Water ... -0.6
5 Retailers, Food ... -0.4

Double lift for Barclays

Banking group Barclays was the feature in an otherwise dull banking sector, as recommendations from two leading brokers boosted the day's trading. Only after the market close did Barclays confirm the reduction of its holding in 3i Group.

Shares in Barclays closed 8 ahead at 782p, after trade of 8.7m, as both Cazenove and Kleinwort Benson issued strong buy circulars and upgraded profits expectations for one of the UK's biggest financial institutions.

Last week, HSBC James Capel made a similar recommendation following a meeting with Barclays.

In a detailed note to investors, the banks team at Kleinwort Benson concluded: "Rarely has a bank changed so dramatically as Barclays. It has transformed its attitude towards capital and towards lending money. These are creating important behavioural changes which are all in shareholders' long term interests. With the group still valued as a bad old bank, the shares offer over 25 per cent relative upside."

Kleinwort upgraded profits expectations for the current year by 6 per cent to £2.114bn and the following year's figure was raised by 10 per cent to £2.235bn.

Just after the session close, Barclays confirmed that it had booked a £61m profit from the sale of 20m shares (around 3.4 per cent) in venture capital company 3i. The trade was carried out at 450p a share (ex-dividend) and came just days after National Westminster Bank sold its 17.7 per cent holding. Barclays is retaining a 2.1 per cent holding in 3i, which declined 9 to 448p in turnover of 42m.

Southern Water up

Bid fever returned to the utilities yesterday as word went round the market that Scottish Power was about to re-enter the contest for Southern Water.

Shares in the Scottish generator tumbled 11 to 304p, the day's worst Footsie performer, in trade of 3.1m. The market gossip suggested that Scottish Power is about to table an offer that would top that already agreed between Southern Electric and Southern Water.

One market specialist said: "One has to realise that Scottish Power is determined to win control of Southern Water and I think they are prepared for a fight."

Shares in Southern Water gained 10 to 993p on the speculation, while Southern Electric receded 9 to 676p.

In the rest of the sector, the poor sentiment following the weekend's Manchester bombing fell on Northern Ireland Electricity. Shares in the group weakened 8 to 419p.

Glaxo firm

A combination of a favourable press report and a number of broker recommendations helped boost pharmaceuticals group Glaxo Wellcome, driving the shares sharply forward.

At the close they showed a gain of 20½ at 887½p, with 8.2m shares traded.

Sentiment was mainly boosted by a report that appeared in US investment publication Barron's which highlighted the potential of Glaxo's new anti-Aids drug called 1592.

SGST reiterated its positive stance on the stock following the article, as did several other brokers.

A couple of engineering stocks gave traders a switchback ride.

British Steel surged initially to 184p on the back of top-of-the-range results, but fell back significantly after a post-results meeting with analysts. British Aerospace followed a similar trading pattern.

BS's annual results, widely acknowledged to reflect the top of the current profits cycle, were up to City expectations and the dividend at 10p for the year looked to be slightly ahead of the consensus.

But analysts came away from their meeting with the management in a cautious mood. There were no downgrades but, equally, few visible signs of profits upgrades.

"The two-way pull that has dogged British Steel for more than two years refuses to go away," said one leading dealer. The shares were the day's second most active Footsie stock with 14m traded. They closed little changed at 178p.

BAe ran up a gain of 17 at one stage, following speculation about contracts in the Sunday press, only to close at 987p, up 7. Siebe, which flew analysts to the US yesterday to view its Foxboro controls operations, added 19 at 907p.

A warning of lower first-half profits left Wagon Industrial nearly 7 per cent cheaper at 348p with a drop of 26.

The integrated oil majors moved in opposite directions, with BP staying out of favour but Shell generating modest buying interest. Crude oil prices managed a modest rebound after a recent weak run, and NatWest Securities helped to stir the pot with a note advising clients to switch their Shell holdings.

"Relative to Royal Dutch, Shell Transport stands at a discount for all classes of investors. There is at least 5 per cent upside for the Shell price, relative to Royal Dutch," argued NatWest. Shell added 4½ at 929½p and BP slipped 3¼ to 558½p.

Several insurance issues underperformed the market yesterday. Specialists suggested there had been active selling of several stocks to take up holdings in Sun Life, which returns to the market on Monday.

Prudential stayed at 418p in trade of 2.8m, Legal & General lost 5 to 677p and Commercial Union shed 4 to 579p.

Housebuilders provided one of the day's perkier performances, with Wimpey topping the FT-SE Mid 250 rankings and Bryant and Barratt Developments not far behind.

A recent note from Merrill Lynch highlighted the political risks for inflation and concluded that, in the run-up to a possible autumn election, the sector was worth more than a second look. It upgraded both Wimpey and Barratt. Wimpey gained 6 to 147p, Barratt 4 to 263p and Bryant 2 to 121p.

Electronics giant GEC shot forward in the best volume since mid-April. The consensus among analysts was that the stock was bouncing off the bottom of its recent trading range ahead of next month's results statement. The shares rose 8½ to 360p in 8.5m traded.

Mobile phones group Vodafone gained 3½ to 246½p after a stance upgrade by HSBC James Capel, which moved from "hold" to "buy" on the stock. The broker has a target price of 280p for the shares. Cable and Wireless eased 4 to 411p in spite of a buy note from Lehman Brothers.

Among media stocks, Carlton Communications jumped 13 to 528p following a resurgence of takeover whisper and a positive note from ABN Amro Hoare Govett.

The broker has reiterated its buy stance and set target price of between 575p and 600p for the shares. The upbeat mood was further enlivened by talk of a possible takeover approach from Bertelsmann, the German media giant.

MARKET REPORTERS:
Joel Kibazo, Jeffrey Brown,
Herjinder Kular.

FINANCIAL TIMES EQUITY INDICES

	Jun 17	Jun 14	Jun 13	Jun 12	Jun 11	Yr ago	*High	*Low
Ordinary Share	2784.5	2782.7	2787.0	2787.6	2779.4	2556.9	2885.2	2596.7
Ord. div. yield	4.02	4.03	3.98	3.98	4.00	4.19	4.06	3.76
P/E ratio net	16.40	16.38	16.21	16.22	16.15	16.98	17.25	15.98
P/E ratio nil	16.31	16.29	15.99	16.01	15.94	15.75	17.08	15.76

Ordinary Share index since compilation: high 2885.2 16/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2780.7	2785.8	2789.1	2779.3	2779.7	2779.3	2780.1	2784.8	2783.5	2789.6	2778.1

	Jun 17	Jun 14	Jun 13	Jun 12	Jun 11	Yr ago
SEAQ bargains	30,826	30,612	30,232	29,804	29,575	21,576
Equity turnover (£m)†	-	2414.8	1867.9	1758.8	1381.8	1272.9
Equity bargains†	-	36,465	36,507	35,792	35,989	30,316
Shares traded (m)†	-	793.0	739.4	688	491.1	587.9

†Excluding intra-market business and overseas turnover.

	Jun 17	Jun 14	Jun 13	Jun 12	Jun 11	Yr ago	*High	*Low
FT-SE AIM	1118.80	1121.80	1113.70	1108.90	1097.50	-	1140.40	985.70

*For 1996.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	482	Total Highs	95	Total contracts	36,134
Total Falls	700	Total Lows	34	Calls	14,475
Same	1,829			Puts	21,659

June 17 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	3751.0	3756.0	+11.0	3766.0	3749.0	10855	30068
Sep	3754.0	3768.5	+10.0	3769.0	3753.0	5217	36253
Dec	3790.0	3782.0	+9.0	3790.0	3790.0	12	779

■ FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	4465.0	4465.0	-5.0	4465.0	4465.0	95	606
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ FT-SE 100 INDEX OPTION (LIFFE) (3755) £10 per full index point

[illegible]

■ EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

FT GOLD MINES INDEX

	Jun 14	% chg on day	Jun 13	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	[illegible]	-0.5	[illegible]	1821.51	1.45	-	[illegible]	1722.56
■ Regional Indices								
Africa (13)	2745.59	-2.4	2813.80	2592.47	2.94	37.40	3363.59	2272.74
Australasia (6)	2473.87	+1.4	2440.05	2086.51	2.66	23.92	2927.34	2088.51
North America (12)	1845.82	-0.5	1865.57	1721.15	0.73	65.54	2188.30	1482.94

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FT-SE Actuaries Share Indices — The UK Series

	Jun 17	Day's chge%	Jun 14	Jun 13	Jun 12	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3781.5	+0.2	3753.6	3761.7	3769.2	3381.3	4.04	2.14	14.44	88.58	1530.42
FT-SE Mid 250	4462.2	-0.1	4464.6	4468.0	4467.4	3659.4	3.39	1.76	21.11	100.23	1795.30
FT-SE Mid 250 ex Inv Trusts	4505.2	—	4507.3	4511.5	4511.6	3667.7	3.48	1.80	19.98	105.29	1815.85
FT-SE-A 350	1901.1	+0.2	1898.2	1901.7	1904.8	1675.0	3.89	2.07	15.53	44.32	1590.72
FT-SE-A 350 Higher Yield	1827.4	+0.3	1821.9	1829.3	1833.1	1686.3	5.17	1.82	12.88	59.27	1276.32
FT-SE-A 350 Lower Yield	1982.1	—	1981.7	1981.4	1983.5	1663.9	2.73	2.31	19.77	36.59	1374.59
FT-SE SmallCap	2238.75	—	2239.97	2240.27	2241.07	1851.96	2.92	1.76	24.34	32.70	1639.66
FT-SE SmallCap ex Inv Trusts	2240.82	—	2240.69	2241.45	2242.64	1850.64	3.07	1.85	22.01	34.66	1651.29
FT-SE-A ALL-SHARE	1887.21	+0.1	1884.58	1887.80	1890.50	1664.20	3.82	2.05	15.99	42.66	1603.60

■ FT-SE Actuaries All-Share

	Jun 17	Day's chge%	Jun 14	Jun 13	Jun 12	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(24)	3468.61	-0.1	3471.21	3511.18	3525.37	2689.33	3.86	1.83	17.67	79.04	1494.39
12 Extractive Industries(6)	4340.57	-0.1	4345.13	4357.34	4368.00	3814.45	3.70	2.52	13.44	109.19	1277.23
15 Oil, Integrated(3)	3510.04	-0.1	3512.77	3562.18	3581.59	2892.61	4.06	1.72	17.78	81.84	1551.06
16 Oil Exploration & Prod(15)	3472.40	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

■ Hourly movements

[illegible]

■ FT-SE Actuaries 350 Industry baskets

[illegible]

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. The FT-SE Actuaries Share Indices are calculated by FT-SE International Limited in conjunction with the Faculty of Actuaries and the Institute of Actuaries. © FT-SE International Limited 1996. All Rights reserved. The FT-SE Actuaries Share Indices are calculated in accordance with a standard set of ground rules established by FT-SE International Limited in conjunction with the Faculty of Actuaries and the Institute of Actuaries. "FT-SE" and "Footsie" are trademarks of the London Stock Exchange and the Financial Times Limited and are used by FT-SE International Limited under licence. Auditor: The WM Company. † Sector P/E ratios greater than 80 are not shown. ‡ Values are negative.

TRADING VOLUME

■ Major Stocks Yesterday

[illegible]

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FT-SE 100 index constituent. All trades are in units/pence. FT Base.

هكذا من الأصل

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jun 17 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (Jun 17 / Frs.)

[illegible]

CZECH REP (Jun 17 / Koruna)

[illegible]

DENMARK (Jun 17 / Kr)

[illegible]

FINLAND (Jun 17 / Mks)

[illegible]

FRANCE (Jun 17 / Frs.)

[illegible]

GERMANY (Jun 17 / Dm.)

[illegible]

GREECE (Jun 17 / Drachma)

[illegible]

ITALY (Jun 17 / Lira)

[illegible]

NETHERLANDS (Jun 17 / Fls.)

[illegible]

NORWAY (Jun 17 / Kroner)

[illegible]

POLAND (Jun 17 / Zloty)

[illegible]

PORTUGAL (Jun 17 / Escudo)

[illegible]

SPAIN (Jun 17 / Pts.)

[illegible]

SWEDEN (Jun 17 / Kronor)

[illegible]

SWITZERLAND (Jun 17 / Frs.)

[illegible]

TURKEY (Jun 17 / TK Lira)

[illegible]

PACIFIC

JAPAN (Jun 17 / Yen)

[illegible]

HONG KONG (Jun 14 / H.K.$)

[illegible]

INDONESIA (Jun 17 / Rupiah)

[illegible]

MALAYSIA (Jun 17 / MYR)

[illegible]

NEW ZEALAND (Jun 17 / NZ $)

[illegible]

SINGAPORE (Jun 17 / S$)

[illegible]

AUSTRALIA (Jun 17 / Aus$)

[illegible]

SOUTH KOREA (Jun 17 / Won)

[illegible]

TAIWAN (Jun 17 / TW $)

[illegible]

THAILAND (Jun 17 / Baht)

[illegible]

AFRICA

SOUTH AFRICA (Jun 14 / Rand)

[illegible]

NORTH AMERICA

CANADA

TORONTO (Jun 17 / Can $) 3:30 pm

[illegible]

MONTREAL (Jun 17 / Can $) 3:30 pm

[illegible]

INDICES

	Jun 17	Jun 14	Jun 13	1996 High	1996 Low
Argentina General(29/12/77)	(u)	17712.30	17763.34	18881.88 20/5	10928.81 19/3
Australia All Ordinaries(1/1/80)	2207.5	2218.2	2200.8	2328.00 29/4	2187.49 11/3
All Mining(1/1/80)	1015.2	1027.4	1019.1	1118.40 8/5	1004.70 16/1
Austria Credit Aktien(30/12/84)	380.10	383.00	385.96	394.99 31/5	352.78 2/1
Traded Index(2/1/91)	1104.04	1112.98	1120.93	1142.51 28/5	975.27 2/1
Belgium BEL20(1/1/91)	1768.10	1763.66	1761.87	1773.98 28/5	1604.90 2/1
Brazil Bovespa(29/12/83)	(u)	58349.0	58038.0	67108.09 26/5	43861.80 2/1
Canada Metals Minls♦(1975)	(u)	5100.56	5146.21	5624.60 8/5	4987.47 18/1
Composite♦(1975)	(u)	5030.19	5069.60	5239.88 22/5	4739.78 15/1
PortfolioSS(4/1/83)	(u)	2452.66	2474.96	2585.55 27/5	2327.39 12/1
Chile IGPA Gen♦(31/12/80)	(u)	5497.14	5508.73	6864.33 8/1	5816.28 8/4
Denmark Copenhagen SE(3/1/83)	402.51	403.32	403.52	407.87 28/5	366.40 2/1
Finland HEX General(28/12/90)	2010.31	2023.36	2031.13	2070.42 31/5	1651.87 10/1
France SBF 250(31/12/90)	1443.36	1442.59	1449.86	1457.86 6/6	1259.16 2/1
CAC 40(31/12/87)	2113.04	2111.78	2126.20	2148.79 30/4	1857.85 11/1
Germany FAZ Aktien(31/12/58)	898.98	903.32	904.12	904.93 23/5	818.56 2/1
Commerzbank(1/12/53)	2591.50	2594.40	2606.70	2608.70 13/6	2370.28 2/1
DAX(30/12/87)	2546.12	2548.83	2567.47	2570.78 21/5	2284.86 2/1
Greece Athens SE(31/12/80)	911.70	915.15	917.57	1017.96 4/3	901.03 29/4
Hong Kong Hang Seng(31/7/64)	(c)	10364.99	10856.02	11594.99 16/2	10204.87 2/1
India BSE Sens.(1979)	4067.29	4048.39	3965.44	4067.29 17/6	2828.08 25/1
Indonesia Jakarta Comp.(10/8/82)	590.73	592.36	591.52	639.21 24/4	912.46 2/1
Ireland ISEQ Overall(4/1/88)	2586.00	2587.22†	2588.41	2588.44 13/6	2234.81 2/1
Italy Banca Comm Ital(1972)	655.91	654.00	657.16	674.18 20/5	572.21 23/3
MIB General(2/1/86)	1112.0	1109.0	1114.0	1142.00 20/5	970.00 27/3
Japan Nikkei 225(16/5/49)	22245.38	22289.39	23082.40	22289.39 14/6	18734.78 13/3
Nikkei 300(1/10/82)	313.61	315.71	312.87	319.06 26/4	284.48 11/3
Japan Topix(4/1/68)	1692.21	1700.1	1684.85	1718.00 28/4	1524.12 13/3
2nd Section(4/1/68)	2220.34	2219.05	2204.89	2243.28 2/5	1862.78 14/3
Malaysia KLSE Comp.(4/4/86)	1124.81	1125.48	1121.82	1189.84 30/4	969.18 2/1
Mexico IPC(Nov 1978)	(c)	3174.86	3153.75	3322.85 22/5	2739.59 8/3
Netherland CBS TtlRtnGen(End 83)	641.7	639.7	644.5	652.80 12/6	539.58 2/1
CBS All Shr(End 83)	380.6	379.4	382.3	387.19 12/6	326.70 2/1
New Zealand Cap. 40(1/7/86)	2072.17	2057.90	2028.83	2203.05 4/1	2025.14 7/6
Norway Oslo SE(Ind)(2/1/83)	1457.18	1457.02	1492.77	1498.71 12/6	1269.88 30/1
Philippines Manila Comp(2/1/85)	3170.58	3166.32	3209.47	3269.78 10/6	2578.97 9/1
Portugal BVL 30(4/1/93)	1914.04	1914.74	(c)	1914.74 14/6	1602.81 2/1
Singapore SES All-S'pore(2/4/75)	579.26	574.83	575.90	610.37 8/2	553.80 2/1
South Africa JSE Gold(28/9/78)	(c)	1805.9♥	1832.0	2890.40 29/5	1346.40 2/1
JSE Indl.(28/9/78)	(c)	8103.0♥	8112.8	8739.30 25/1	7723.28 20/5
South Korea KoreaCmpEx**(4/1/80)	858.43	862.53†	874.88	986.84 7/5	835.87 13/3
Spain Madrid SE(30/12/85)	370.67	371.28	371.60	372.37 12/6	323.75 11/1
Sweden AffarsvarldsGen(1/2/37)	1973.0	1976.4	1985.9	2019.90 6/6	1709.69 22/1
Switzerland Swiss Bk Ind(31/12/58)	1730.21	1726.57	1731.37	1778.64 26/4	1518.18 17/1
SBC General(1/4/87)	1228.61	1228.80	1230.43	1259.89 26/4	1114.47 26/1
Taiwan Weighted Pr.**(30/6/66)	6423.11	6314.74	6376.10	6423.11 17/6	4690.22 6/2
Thailand Bangkok SET(30/4/75)	1253.49	1256.04	1247.05	1415.84 6/2	1243.77 12/6
Turkey Istanbul Comp.(Jan 1986)	67643.5	67392.8	68592.1	72098.89 8/4	38779.30 2/1
WORLD MS Capital Intl(1/1/70)	775.5*	775.7	774.0	789.30 22/5	725.98 15/1
CROSS-BORDER Eurotrack 100(26/10/90)	1681.90	1692.14	1691.85	1699.17 29/5	1504.49 11/1
Euro Top-100(26/6/90)	1440.82	1437.16	1445.11	1458.28 29/4	1333.81 11/1
HSBC JC Drgn(31/12/88)	(c)	371.93	371.17	383.16 18/4	344.19 2/1
ING Brngs Emrg(7/1/92)	160.92	160.38	160.61	164.14 14/5	147.35 2/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
CAC-40 (200 x Index)							
Jun	2104.0	2103.0	+6.0	2110.0	2100.0	9,146	49,271
Jul	2103.0	2101.5	+5.5	2107.0	2100.0	528	17,689
DAX							
Jun	2555.0	2551.5	+7.0	2560.0	2545.5	22,387	–
Sep	2575.5	2571.0	+8.0	2580.0	2566.0	10,152	–
OMX							
Jun	1539.00	1539.00	+1.00	1544.00	1531.50	2,874	15,839
Jul	1547.75	1545.00	–	1549.75	1539.50	1,035	1,956
SOFFEX							
Jun	3593.0	3604.0	+15.0	3604.0	3584.8	5,197	15,556
Jul	3593.5	3605.0	+16.0	3605.0	3592.0	1,914	17,595

	Open	Latest	Change	High	Low	Est. vol.	Open int.
S&P 500							
Jun	668.00	668.20	+1.45	668.20	665.70	23,047	100,718
Sep	670.55	672.10	+1.55	672.10	669.00	70,194	110,061

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Nikkei 225							
Jun	22440.0	22420.0	+20.0	22590.0	22400.0	24,855	196,321
Sep	22440.0	22530.0	+90.0	22820.0	22440.0	80	4,133

Open interest figures for previous day.

Vol Jun 16: Taiwan Weighted Price 6412.40; Korea Comp Ex 859.49. Base values of all indices are 100 except: Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL 30, SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7, JSE 20 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ IBIS/DAX after-hours index: Jun 17 - 2549.71 +4.81. Montreal. ♦ Toronto. (c) Closed. (u) Unavailable.

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

US INDICES

Dow Jones	Jun 14	Jun 13	Jun 12	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	5649.45	5657.85	5668.29	5778.00 (22/5)	5032.94 (10/1)	5778.00 (22/5/96)	41.22 (8/7/32)
Home Bonds	101.27	101.25	101.24	105.89 (14/2)	101.19 (8/5)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2203.45	2214.01	2223.86	2286.29 (22/5)	1962.71 (18/1)	2286.29 (22/5/96)	12.32 (8/7/32)
Utilities	207.45	208.40	205.86	234.80 (12/2)	205.42 (7/6)	256.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 5687.13 (5714.83) Low 5609.93 (5622.86) (Theoretical)♦
Day's high 5664.97 (5683.44) Low 5631.26 (5639.85) (Actual)♦

Standard and Poors	Jun 14	Jun 13	Jun 12	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	665.85	667.92	669.04	678.51 (24/5)	598.48 (10/1)	678.51 (24/5/96)	4.40 (1/6/32)
Industrials♥	784.28	787.21	788.31	807.86 (5/6)	702.07 (15/1)	807.86 (5/6/96)	3.62 (21/6/32)
Financial	66.94	67.01	66.83	68.56 (5/3)	58.67 (10/1)	68.56 (5/3/96)	8.64 (1/10/74)
NYSE Comp.	357.20	358.08	358.68	363.74 (24/5)	321.41 (10/1)	363.74 (24/5/96)	4.46 (25/4/42)
Amex Mkt Val	583.85	586.73	587.55	614.99 (22/5)	529.05 (18/1)	614.99 (22/5/96)	29.31 (9/12/72)
NASDAQ Cmp	1213.18	1225.66	1235.47	1249.14 (5/6)	988.57 (15/1)	1249.14 (5/6/96)	54.87 (31/10/72)

RATIOS

	Jun 14	Jun 7	May 31	Year ago
Dow Jones Ind. Div. Yield	2.19	2.18	2.18	2.46
	Jun 12	Jun 5	May 29	Year ago
S & P Ind. Div. yield	1.87	1.88	1.88	2.20
S & P Ind. P/E ratio	19.65	22.74	22.38	17.65

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Vodafone	27,984,800	37⅞	+⅞
Kmart	9,804,300	13⅛	−⅜
Metromail	6,458,500	22⅛	+1⅜
Micron	4,766,700	29⅝	−⅝
McDonalds	4,303,100	47	−¼
Philip Morris	4,115,100	105⅛	+1⅝
Lond Island	3,921,100	17⅝	+⅛
Pfizer	3,037,200	75¾	+3⅛
WMX Tech	2,875,500	32⅛	[illegible]
Oregon Stl	2,914,800	13	−½

TRADING ACTIVITY

● Volume (million)

	Jun 14	Jun 13	Jun 12
New York SE	385.916	379.617	390.881
Amex	18.122	20.871	21.922
NASDAQ	523.786	581.079	571.402
NYSE			
Issues Traded	3,110	[illegible]	3,139
Rises	1,006	929	1,066
Falls	1,316	1,347	1,210
Unchanged	788	852	843
New Highs	58	67	92
New Lows	34	59	66

TOKYO – MOST ACTIVE STOCKS: Monday, June 17, 1996

	Stocks Traded	Closing Prices	Change on day
Mitsubishi Heavy	11.7m	948	-2
Teisan	8.5m	1020	+106
NKK Corp	5.3m	319	-5
Nippon Stl Corp	4.9m	358	-4
Toray Inds	4.6m	784	+14
Hokuriku Elect	4.5m	849	+30
Fujitsu	4.3m	1010	-10
Kanematsu Corp	4.3m	774	-11
Sumitomo Mtl Ind	4.2m	322	-1
Nissan Motor	3.9m	930	+15

Prices supplied by Telekurs

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are based on data from Jan 1 1996. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

3:30 pm June 17

NEW YORK STOCK EXCHANGE PRICES

1996 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
23¾	19⅛	AAR	0.48	2.4	22	32	20¼	20¼	20¼	
46⅞	38⅝	AMP	1.00	2.6	19	1441	39¼	39	39	-¾
97½	66	AMR			23	1301	93⅛	92¾	93	-¼
58½	37¾	ASA	1.80	4.4	27	206	41¼	40⅞	40⅞	
44¾	38⅛	AbbotL	0.96	2.2	19	4636	43¼	42⅞	43	+⅛
17¼	13⅞	Abitibi Pr	0.40	3.0	6	106	13⅝	13½	13½	
38⅞	27	ABM Ind	0.70	1.9	18	18	37½	37⅛	37⅛	-½
17⅞	13⅞	Acpincple			46	258	17½	17½	17½	
50⅜	37¾	ACE Ltd	0.58	1.2	11	941	45⅞	44¾	45⅞	+1
9⅞	8⅞	ACM Gvt In x	0.90	9.2	8	51	9¾	9⅝	9¾	
7⅞	6⅝	ACM OpOpp x	0.57	8.4		26	6⅞	6¾	6¾	-⅛
7¼	6	ACM Gvt Sp x	0.66	10.8		79	6⅛	6⅛	6⅛	+⅛
8⅝	8¼	ACM Gvt Se x	0.90	10.7		28	8½	8⅜	8⅜	
9½	8¼	ACM Man x	0.90	10.1		21	8⅞	8¾	8⅞	
30⅞	16½	AcmeCle	0.52	1.7	7	13	30	29¾	30	+¼
13⅞	6⅛	Acme Elect			52	79	9⅞	9½	9½	-⅜
32½	27¾	Acordia	0.80	2.5	19	27	31¾	31½	31¾	+¼
21⅞	12	Acuson			76	75	17	16¾	16⅞	-¼
19½	16⅞	Adams Exp	1.66	8.7	0	59	19¼	19⅛	19⅛	-⅛
21¼	15	Adelale			6	3798	16¾	16	16	-⅛
11⅛	6½	Advest Grp	0.16	1.5	7	5	10¾	10⅝	10¾	+⅛
28⅛	8⅛	Advo Inc	0.10	1.0	57	114	10½	10⅜	10⅜	
50⅞	41⅛	Aegon	1.18	2.6	14	30	46½	46½	46½	
6¾	3½	Aerflx			4	280	6⅛	6⅛	6⅛	-¼
78¼	65⅜	AetnaL	2.76	3.8	19	6213	73⅛	72⅛	72⅛	-1⅛
33	28¾	Aflac	0.40	1.4	12	506	29⅝	29⅜	29⅜	-⅛
20⅞	17⅛	AGL Res	1.06	6.0	15	100	17⅝	17⅜	17⅝	+¼
27⅞	21¼	Ahmans	0.88	3.3	7	867	26¾	26⅝	26⅝	
60⅞	50⅞	AirPrC	1.10	1.9	15	201	58	57⅞	57¾	
28⅞	23½	Airbne Frt	0.30	1.2	23	400	25¾	25⅝	25¾	+⅛
22½	15½	Airgas Inc			33	1072	20¼	20⅛	20¼	
18⅞	15	Airlease	1.80	10.6	10	11	17	17	17	
33⅞	25⅞	AirTch			99	3050	30⅛	29¾	29⅞	+⅛

Continued on next page

هكذا من الأصل

NYSE PRICES

3:30 pm June 17

Continued from previous page

NASDAQ NATIONAL MARKET

3:30 pm June 17

AMEX PRICES

3:30 pm June 17

AMERICA

Weak semis extend tech stocks tumble

Wall Street

Technology shares were lower at midsession, while the rest of the market traded just below Friday's closing levels as activity was muted across US financial markets, *writes Lisa Bransten in New York.*

At 1pm, the Dow Jones Industrial Average was off 7.75 at 5,641.70, the Standard & Poor's 500 had dipped 1.42 to 664.43 and the American Stock Exchange composite had lost 3.70 at 590.15. NYSE volume came to 156m shares.

Trading on the bond and currency markets was slow at the beginning of a week where traders expected little in the way of important economic data.

The benchmark 30-year Treasury traded slightly higher than its price late on Friday to yield 7.084 per cent, while the dollar posted a modest loss against the Japanese yen and the D-Mark.

The Nasdaq composite, which is about 40 per cent comprised of technology shares, continued the tumble it took on Friday amid nervousness in the semiconductor sector. In early afternoon trading, the Nasdaq had tacked a fall of 4.34 on to the 12.43 it shed on Friday, bringing the index to 1,208.84. The Pacific Stock Exchange technology index was 0.5 per cent weaker and the Morgan Stanley high-tech 35 showed a fall of 0.7 per cent.

Johannesburg was closed for a public holiday

Weaker semiconductor issues included Intel, which shed $1⅞ to $71¼, Micron Technology, off $¼ at $29⅝, and Texas Instruments, $⅝ lower at $52⅝.

Elsewhere, Kansas City Power & Light rose $1⅜ or 5 per cent to $27¼ on news that Western Resources had raised its hostile bid for the utility to $31 a share from $28 a share. Shares in Utilicorp, which was negotiating a friendly merger with the Kansas utility, relinquished $¼ at $26½.

Pfizer and Glaxo rose on unfounded speculation that the two companies could merge. Shares of Pfizer added $1 at $76¾ and American Depositary Receipts of Glaxo Wellcome put on $⅝ at $27¼.

Household International rose $1⅞ to $72⅝ on news that it was purchasing a credit card portfolio from the Bank of New York. Household International said that it would acquire a credit card tied to the AFL-CIO labour union representing 2.2m cards with about $3.4bn in outstanding transactions. Bank of New York rose $⅛ to $53⅝.

Canada

Toronto stocks traded flat at midsession, unable to capitalise on a better tone in gold shares. The TSE-300 composite index was 2.91 higher by noon at 5,033.10, in weak volume of just 29.9m shares.

Among individual stocks, Loewen added C$1.20 at C$40.80 on news that it was buying a 20 per cent stake in Prime Succession, the largest privately held funeral home operator in the US, with an option to buy all of Prime after four years.

Bre-X Minerals, the gold prospector, jumped C$1.10 to C$23.95 on claims of a 30m-ounce discovery in Indonesia.

Brazil advances 1.5%

São Paulo moved 1.5 per cent higher in midsession trade, although analysts noted that price rises on options settlements were tempered by concern that the government *would slow its drive for constitutional reforms.* The Bovespa index rose 868.22 to 57,217.

MEXICO CITY made a spirited attempt to move ahead in early trade, after the steady losses of last week, but by midsession the market was again in negative territory with the IPC index down 4.66 at 3,170.22.

Abaco, the broker, argued yesterday that the market correction was due more to nervousness *about the peso than* to fundamentals. Abaco added that inflation looked fairly well under control, economic growth was picking up and earnings reports were expected to be strong.

MARKETS IN PERSPECTIVE

	% change in local currency †				% change sterling †	% change in US $ †
	1 Week	4 Weeks	1 Year	Start of 1996	Start of 1996	Start of 1996
Austria	-1.26	+2.81	+9.19	+17.58	+11.60	+10.49
Belgium	+1.11	+1.37	+21.48	+8.39	+2.84	+1.82
Denmark	+0.35	+0.84	+14.06	+8.26	+4.16	+3.11
Finland	+0.05	+1.21	-1.86	+11.56	+4.44	+3.39
France	+0.20	-0.91	+13.16	+15.36	+10.31	+9.20
Germany	-0.24	+0.34	+17.09	+10.55	+4.96	+3.91
Ireland	+1.63	+2.89	+29.17	+14.53	+14.18	+12.99
Italy	-0.89	-4.36	+4.44	+6.88	+10.76	+9.65
Netherlands	-0.76	+1.01	+29.61	+15.37	+9.52	+8.43
Norway	+1.43	+3.97	+19.53	+14.17	+11.64	+10.52
Spain	+2.41	+3.49	+30.52	+16.74	+11.14	+10.03
Sweden	-0.80	-0.01	+25.45	+14.67	+14.83	+13.66
Switzerland	+1.06	-0.01	+26.57	+8.55	+0.87	-0.14
UK	+1.18	-1.07	+12.48	+2.45	+2.45	+1.42
EUROPE	+0.81	-0.34	+17.01	+8.68	+5.61	+4.56
Australia	-0.18	-2.02	+12.55	-0.67	+6.73	+5.67
Hong Kong	-2.69	-0.16	+16.17	+9.66	+10.60	+9.50
Japan	+2.40	+1.37	+40.86	+6.82	+2.37	+1.35
Malaysia	-0.93	-2.41	+3.93	+11.66	+14.78	+13.63
New Zealand	+2.15	-0.77	-3.97	-4.70	-0.83	-1.82
Singapore	-1.28	+0.51	+8.10	+1.88	+3.31	+2.28
Canada	-2.31	-3.41	+10.78	+7.12	+7.94	+6.86
USA	-1.05	-0.48	+23.86	+8.04	+9.13	+8.04
Mexico	-2.40	-2.50	+58.16	+15.97	+18.79	+17.61
South Africa	-0.43	+0.90	+25.87	+11.43	-5.77	-6.71
WORLD INDEX	+0.09	-0.10	+25.20	+7.85	+6.47	+5.40

† Based on June 14 1996.

EUROPE

Bumpy day for airlines, Lufthansa loses height

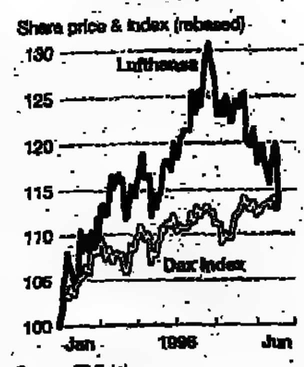
Airline stocks had a bumpy passage. Lufthansa had the *worst of it, falling* DM10.50 to DM224.20 on a Süddeutsche Zeitung report that the German airline had made an operating loss of DM200m in the first five months of 1996, because of poor sales and heavy competition.

In the Netherlands, KLM offered a new cut price flight to London's Heathrow, but its Martinair associate talked about pressure on cargo rates and a poor start to the summer tour market. KLM shares fell Fl 1.50 to *Fl 55.20. Swissair* lost SFr15 at SFr1,350 after news of its plans to boost collaboration in response to the alliance between BA and American Airlines.

FRANKFURT balanced the weaker dollar against the Russian election result and came out with the Dax index 4.81 *higher at an Ibis-indicated* 2,549.81. Turnover fell again, from DM8.8bn to DM7.2bn.

Dollar-associated losses included Continental, the tyremaker, off 54 pfgs at DM24.60, and Mannesmann, down DM5.60 at DM535. But Volkswagen, which fell DM6.60 to *DM555.80, had its own malaise:* the carmaker announced a recall of 950,000 cars worldwide, mainly Golf and Jetta models, for the repair of engine cooling systems.

Lufthansa



Source: FT Extel

PARIS consolidated. Turnover was moderate at FFr4bn and the CAC-40 index rose just 1.26 to 2,113.04.

A measure of the day was its star performer, the catering group Sodexho, which is not in the 40-share index. It rose FFr189, *or 9 per cent,* to FFr2,295 on its forecast of an effective 30 per cent increase in net profits for 1995/96.

ZURICH's cyclicals attracted more attention than banks and insurers as the SMI index finished 6.2 higher at 3,600.1.

ABB, leading a consortium *to build a $5bn Malaysian dam,* rose SFr13 to SFr1,532. SMH, the watchmaker, extended recent gains with a rise of SFr10 to SFr885; and Elektrowatt added SFr8 at SFr444 in a continuing rebound after the sharp losses it suffered after its first-half report.

Interdiscount lost 50 centimes at SFr5, on continuing uncertainty about whether it will be forced to seek protection from creditors by the end of this month.

Globus fell SFr22 to SFr750 on the *pessimistic outlook* given at its annual meeting and on negative sentiment for the retail sector caused by the Interdiscount problem.

BRUSSELS turned its attention to the steel sector. Clabecq leapt BFr69, or 21.3 per cent, to BFr324, off a high of BFr350, on a BFr1.5bn rescue plan that could save *it* from bankruptcy.

Arbed, the Luxembourg steel maker, which posted a strong *rise on Friday* before the details of the Clabecq plan were announced, gave up BFr10 to BFr3,730.

The broader market was mixed, with the Bel-20 index finishing 0.46 weaker at 1,763.10.

Petrofina, the oil and gas group, and Kredietbank, both the stars of Friday's session, continued to benefit from a reweighting of the Bel-20 index, which takes effect in *September. Petrofina* was up BFr100 at BFr9,900 and KB advanced BFr250 to BFr9,990.

AMSTERDAM featured a gain of Fl 3.80 to Fl 168 in DSM on the group's expansion in fine chemicals, regarded as less volatile than DSM's main business of petrochemicals and plastics.

FT-SE Actuaries Share Indices

Jun 17						THE EUROPEAN SERIES		
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1681.68	1681.39	1680.70	1680.03	1680.43	1681.52	1681.80	1681.90
FT-SE Eurotrack 200	1723.77	1724.34	1722.44	1722.58	1723.07	1724.52	1724.91	1724.19

	Jun 14	Jun 13	Jun 12	Jun 11	Jun 10
FT-SE Eurotrack 100	1682.14	1691.85	1694.47	1686.89	1686.82
FT-SE Eurotrack 200	1722.32	1731.29	1733.88	1726.73	1724.40

Base value 1000 (26/10/90) Highday: 100 - 1683.22; 200 - 1726.19 Lowday: 100 - 1679.83 200 - 1722.21. † Partial.

The AEX index moved ahead 2.77 to 561.07. Ahold, the big retailer currently making an issue of partly convertible preference shares, rose Fl 5.20 to Fl 94.50 in relatively light volume of 660,000 shares.

HELSINKI saw Nokia A fall FM2.50 to FM181 after Friday's US tech stocks sell-off. Forestries eased ahead of tertial reports today; and Amer, the sporting goods group, dropped FM4.80 to FM86.20 in a further reaction to its four-monthly results.

The Hex index fell 13.05 to 2,010.31. However, the pharmaceuticals group Orion climbed further on brisk foreign demand after a good tertial *report last Wednesday.*

The shares put on FM6 at FM158 after CS First Boston initiated coverage of the stock with a buy recommendation, saying it was trading at a 42 per cent discount to the European pharmaceuticals sector.

LISBON featured a 5.7 per cent *rise in the state controlled* Banco de Fomento e Exterior, on indications that the Amorim group's Banco Nacional de Credito Imobiliario would join the bidding at its privatisation.

BFE added Es121 at a record Es2,230 as the BVL-30 index edged 0.70 down to 1,914.04.

TEL AVIV rallied 2.5 per cent in a *display of approval* for both candidates believed to be in the running for the post of finance minister. The Mishtanim index rose 5.07 to 205.37.

Suggestions emerged on Sunday that the job would go to Mr Jacob Frenkel, the central bank governor, regarded as a staunch inflation fighter. Yesterday, however, Mr Dan Meridor, a former justice minister *seen as a supporter of free* markets, also appeared to have entered the fray. "Either way, the market likes it," said one analyst.

Mofet, the venture capital fund, jumped 9.8 per cent to Shk155.5 in *anticipation* of the Wall Street offering of Orckit Communications, in which it *owns* 4.3 per cent, and on rumours about a possible sale of Scorpio Communications, in which Mofet holds 6 per cent.

WARSAW did not appreciate the way *Rafako, the* boilermaker, cut its new issue price from 24 zlotys to 14, and *the existing shares* dropped by 1.80 to 16.70. However, it did like a Merrill Lynch report on Agros, the food trader and producer, placing it among best buys in European *emerging* markets. Agros climbed 6.50 zlotys or 9.6 per cent to 74.50 as the *Wig index rose* 104.4 to 12,944.6.

BUDAPEST hit a new high but traders said that *the low* turnover reflected a continued wait and see attitude over the *Russian elections.* The Bux index rose 24.30 to 3,156.60.

MOSCOW's key indices soared by between 8.1 and 15.8 per cent to new all-time highs, *and the highest* flyer, the RTS-21 index, put on 23.27 at 170.13 as it welcomed President Boris Yeltsin's lead over his Communist rival in Sunday's presidential elections.

However, traders said Western *investors* were reluctant to come in at this stage, and that rises were largely *speculative,* in the most liquid shares.

Written and edited by William Cochrane and Michael Morgan

ASIA PACIFIC

Sumitomo limit-down, Nikkei only marginally lower

Tokyo

The Sumitomo debacle had a limited effect on the broad market. Shares in the trading company fell sharply but the Nikkei average closed only *marginally lower, writes Emiko Terazono in Tokyo.*

The 225 index eased by 44.01, closing at the day's low of 22,245.38, as earlier gains were wiped out by profit-taking initiated by domestic institutions. It had seen a day's high *of* 22,519.39 in the morning on purchases by domestic and foreign investors, but traders said that selling overwhelmed buying in the afternoon session as the index breached its near *term target of 22,500.*

Volume totalled 411m shares, against Friday's 1bn, which was supported by technical trading linked to futures settlements. The Topix index of all first section stocks slipped 7.89 to *1,682.21 and the Nikkei 300* by 2.10 to 313.61, but rises narrowly led declines by 540 to 507, with 163 issues unchanged.

In London the ISE/Nikkei 50 *index gained 3.40 at 1,499.66.*

Dealing resumed in Sumitomo, which fell by its daily limit of Y200, or 16.5 per cent, to Y1,010. The TSE suspended trading on Friday following media reports, and the trading *house confessed that* it had incurred losses of $1.8bn due to illicit copper trading by its head commodity trader.

Other trading houses were also lower, with Itochu down Y12 to Y752 and Mitsui losing Y13 to Y977.

The plunge in copper prices hit mining shares, the sector declining 0.9 per cent. Sumitomo Metal Mining, the mining company in the Sumitomo keiretsu, or corporate grouping, lost Y14 to Y977; *Dowa Mining* fell Y9 to Y530.

Government-controlled companies lost ground as West Japan Railway announced that *it had started listing preparations.* East Japan Railway declined *Y1,000 to Y589,000,* Japan Tobacco Y20,000 to Y841,000 and Nippon Telegraph and *Telephone by Y9,000 to* Y806,000.

The Finance Ministry announced that it had set the price for JT's second offering at Y815,000 as a result of investor screening. Industry *analysts said JT could come under* selling since the price was 3 per cent lower than yesterday's close.

In Osaka, the OSE average receded 24.57 to 23,495.14 in volume of 61.1m shares. Nintendo, *the video game company, rose* Y250 to Y8,440.

Roundup

After a 1.5 per cent gain on Saturday, TAIPEI followed on *with a token improvement of* 10.71 to a new 14-month high of 6,423.11. Turnover rose from T$53.6bn to T$58.9bn. Share prices were restrained, awaiting *the outcome of trade talks* between Beijing and Washington – which, *eventually,* concluded positively with the withdrawal of sanctions threats by both sides.

Meanwhile, the ruling *Nationalist party confirmed* that it had plans to set up a fund, jointly with Morgan Stanley, to invest in the Taipei equities. Local newspapers reported that the fund would be capitalised at T$3bn.

Morgan Stanley's inclusion of Taiwan in its emerging markets index from September sent the island's share prices surging last week.

KARACHI followed its worst drop of the year, 3.1 per cent on Sunday, with short-covering and institutional support which took the KSE 100 index back up by 18.51 to 1,667.01. Sunday's setback was in reaction to the austerity budget announced last Thursday which involved the largest ever tax imposition in Pakistan's history.

SYDNEY's resource stocks continued to drift following *sharp falls* in base metal prices, especially copper, after the *Sumitomo shock.* The sector dropped 1.35 per cent as the All Ordinaries index closed 8.7 down at 2,207.5.

BHP, stung early by the base metals slide, slid even further late in the session after the company said it saw margins from its steel operations under pressure for some time. The *shares fell 33 cents to A$13.32.*

MIM was 6 cents lower at A$1.64, *CRA* off 25 cents at A$19.55 and WMC 9 cents down at A$8.87.

WELLINGTON was led higher by Telecom, previously oversold and recovering 10 cents to NZ$6, and Carter Holt Harvey, which put on 6 cents at NZ$3.51. The NZSE-40 index ended 14.27 ahead at 2,072.17.

SINGAPORE saw action in Cerebos, up 40 cents to S$12.50 on Friday's results, but the *broad market lacked incentives* and the Straits Times Industrial index closed 1.34 softer at 2,272.27, after reaching 2,289.47.

KUALA LUMPUR's blue chips were virtually flat, with the composite index giving up 0.67 to 1,124.81, *but the small*-capitalisation Second Board index fell 4.60 to 417.66.

Among the most active issues, Diperdana shed M$1 to M$22.10, giving back some of its recent gain, while SAAG continued on its upward path, jumping M$2.40 to M$21.80.

SEOUL was broadly weaker, but telecommunications shares staged a technical rebound after a sharp fall earlier in the month following the announcement of 27 new telecommunications licences.

The composite index ended 3.06 lower at 856.43 in weak volume of 16.3m shares.

Sungmi Telecom Electronics, a telecommunication equipment maker, moved ahead *Won10,000 to its limit of* Won180,000 and LG Information and Communications rose Won4,900 to Won90,900.

SHANGHAI's B shares jumped 3.3 per cent on expectations that the city's government would follow the lead of Shenzhen's government and exchange in establishing a promotion group to boost hard currency B shares. The B index moved forward 1.681 to 53.245.

BOMBAY was unable to maintain its best levels, the BSE 30-share index *finishing* 17.90 up at 4,067.29, after touching 4,131.22, on a busy day for corporate news.

ITC, the tobacco group, fell Rs18.75 to Rs309 ahead of results, due after the close.

Speculative demand pushed Colgate Rs4.75 higher to Rs275.25 and Reckitt & Colman up Rs13 to Rs250.50.

Hotel group shares were also sought. Leela leapt Rs10.50 to Rs163.50 on results, while East India Hotels climbed Rs22.50 *to* Rs736.25 on expectations of a bonus issue.

● Hong Kong was closed for a public holiday and Shenzhen B shares did not trade for that reason.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The Indices are compiled by FT-SE International and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

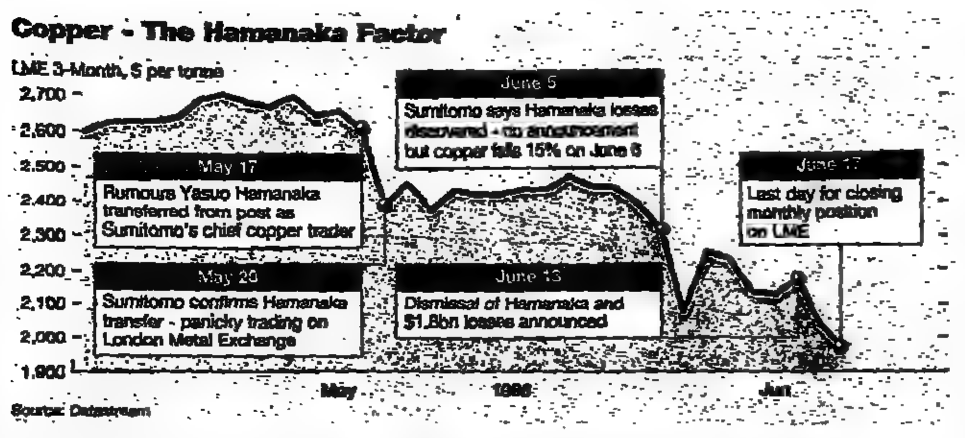
NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY JUNE 14 1996 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY JUNE 13 1996 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (79)	200.81	0.6	193.69	138.01	158.99	168.78	0.7	4.37	199.83	193.70	137.88	159.50	167.65	212.18	182.68	182.68
Austria (25)	192.84	0.8	186.01	132.65	152.68	152.61	-0.5	1.86	192.16	186.27	132.58	153.38	153.31	199.28	181.11	192.64
Belgium (27)	212.94	0.9	205.39	146.34	168.58	164.53	0.1	4.06	211.06	204.58	145.82	168.47	164.40	215.87	188.06	191.39
Brazil (28)	167.19	1.8	161.27	114.91	132.37	306.12	1.9	8.15	164.28	159.24	113.34	131.12	302.38	171.06	123.97	139.26
Canada (99)	158.62	-0.6	153.00	109.01	125.58	157.04	-0.9	2.42	159.89	154.98	110.31	127.62	158.43	165.12	131.14	141.58
Denmark (30)	297.75	0.5	287.20	204.63	235.74	237.82	-0.3	1.69	296.19	287.10	204.36	236.42	238.55	305.17	275.66	281.50
Finland (23)	193.42	-0.5	186.57	132.98	153.14	190.18	-0.8	2.63	194.38	188.42	134.11	155.16	191.67	276.11	171.75	215.71
France (97)	195.92	0.3	188.98	134.65	155.12	158.77	-0.5	3.02	195.32	189.33	134.76	155.90	159.60	198.39	167.70	182.39
Germany (60)	170.09	0.2	164.06	116.89	134.66	134.66	-0.6	1.84	169.79	164.58	117.14	135.52	135.52	174.38	155.66	159.82
Hong Kong (59)	424.53	0.3	409.49	291.76	336.11	422.05	0.3	3.38	423.19	410.20	291.97	337.79	420.66	451.19	348.81	365.83
Ireland (16)	286.71	0.5	276.48	196.42	226.58	257.26	0.0	3.33	287.26	278.47	198.20	229.31	257.25	286.71	229.61	231.69
Italy (59)	80.81	0.0	77.95	55.54	63.98	93.34	-0.3	2.35	80.82	78.34	55.76	64.51	93.82	84.53	67.22	73.10
Japan (481)	157.02	1.3	151.46	107.91	124.32	107.91	0.9	0.71	155.04	150.29	106.97	123.76	106.97	164.68	137.75	143.82
Malaysia (107)	551.27	-0.0	531.73	378.87	436.46	529.72	0.1	1.70	551.27	534.35	380.33	440.01	529.34	585.09	425.77	542.85
Mexico (18)	1218.15	0.3	1174.98	837.19	964.45	10118.80	0.0	1.39	1214.40	1177.15	837.84	969.31	10117.58	1325.65	791.99	941.54
Netherland (19)	295.71	0.1	285.23	203.23	234.12	230.21	-0.7	3.13	295.40	286.34	203.80	235.79	231.77	299.59	245.79	248.82
New Zealand (15)	78.21	2.1	75.44	53.75	61.93	61.65	2.0	4.46	76.64	74.28	52.87	61.17	60.44	85.49	75.94	81.21
Norway (35)	255.82	0.1	248.56	175.66	202.38	228.44	-0.5	2.01	255.30	247.46	176.14	203.76	227.46	255.99	222.24	224.56
Singapore (44)	416.50	0.2	401.75	286.25	329.75	270.44	0.1	1.40	415.66	402.90	286.77	331.77	270.08	465.21	355.61	396.83
South Africa (45)	359.46	-1.3	346.72	247.04	284.60	342.12	-0.5	2.10	364.28	353.10	251.32	290.76	343.76	437.76	339.24	339.24
Spain (37)	181.76	0.6	175.32	124.92	143.91	177.25	-0.1	3.14	180.73	175.16	124.69	144.25	177.45	181.76	145.15	146.01
Sweden (48)	354.79	0.1	342.22	243.93	280.90	351.13	-0.4	2.42	354.44	343.56	244.63	282.91	352.52	360.77	259.66	261.30
Switzerland (38)	235.65	0.7	227.30	161.95	186.57	182.75	-0.3	1.82	234.11	226.93	161.52	186.86	183.28	252.34	191.24	198.85
Thailand (46)	168.87	0.5	162.89	116.06	133.70	166.02	0.3	1.99	168.06	162.92	115.96	134.16	165.46	198.95	146.74	171.48
United Kingdom (200)	233.82	0.3	225.54	160.70	185.12	225.54	-0.2	4.13	233.10	225.94	160.82	186.05	225.94	237.43	210.29	217.72
USA (627)	271.46	-0.3	261.84	186.56	214.92	271.46	-0.3	2.10	272.36	264.00	187.91	217.39	272.36	276.47	219.17	219.17
Americas (772)	247.72	-0.3	238.95	170.25	196.13	206.27	-0.3	2.18	248.53	240.90	171.46	198.37	208.95	252.43	200.69	200.69
Europe (714)	210.03	0.3	202.59	144.35	166.29	184.46	-0.3	3.05	209.39	202.97	144.46	167.13	185.13	211.36	187.21	188.07
Nordic (136)	303.75	0.1	292.99	208.78	240.49	264.56	-0.4	2.32	303.47	294.16	209.37	242.23	265.72	306.61	250.62	252.82
Pacific Basin (831)	169.34	1.1	163.34	116.38	134.07	118.63	0.8	1.16	167.50	162.36	115.56	133.69	117.69	177.01	140.66	154.31
Euro-Pacific (1545)	186.19	0.7	179.59	127.96	147.41	143.60	0.2	2.05	184.85	179.18	127.53	147.54	143.24	190.57	166.51	169.65
North America (726)	264.49	-0.3	255.12	181.78	209.41	263.81	-0.3	2.18	265.41	257.27	183.11	211.85	264.74	269.62	214.36	214.36
Europe Ex. UK (514)	191.89	0.3	185.09	131.88	151.92	159.60	-0.4	2.48	191.31	185.44	131.99	152.70	160.51	192.67	168.40	169.37
Pacific Ex. Japan (350)	285.03	0.3	274.93	195.89	225.66	246.06	0.4	3.10	284.04	275.32	195.96	226.71	245.07	296.68	243.59	264.00
World Ex. US (1735)	187.25	0.7	180.61	128.69	148.25	147.82	0.2	2.06	186.04	180.33	128.35	148.49	147.60	191.65	167.38	169.37
World Ex. UK (2162)	211.17	0.2	203.68	145.13	167.19	179.12	-0.0	1.91	210.70	204.24	145.37	168.18	179.12	213.06	181.26	181.26
World Ex. Japan (1881)	244.43	-0.1	235.77	167.99	193.52	231.72	-0.3	2.53	244.63	237.13	168.78	195.26	232.37	247.55	207.39	207.52
The World Index (2362)	213.22	0.2	205.67	146.54	168.82	183.48	0.0	2.11	212.74	206.21	146.77	169.80	183.82	214.70	184.45	184.45

 Latest prices were unavailable for this edition.

Trading calmer on LME after Hamanaka effect fades

International efforts cool copper market

By Kenneth Gooding, Mining Correspondent



Source: Datastream

The Hamanaka factor has been influencing copper prices for the past month and the market remains very nervous in case there is still bad news to come. But yesterday, compared with some recent hectic activity, the London Metal Exchange's copper market was relatively calm.

It seemed that the international efforts to ensure the market did not go into meltdown were bearing fruit. These efforts aimed at keeping the copper market stable and involved all key participants – traders, banks, producers and funds – making sure they knew Sumitomo Corporation's positions on the LME and its financial exposure.

Traders suggested that, if the market was to remain stable, three important questions needed to be answered: how big was Sumitomo's remaining "long" position; were there any "hidden" copper stocks; and how big were the non-Sumitomo "long" positions that might influence the market?

Mr Jim Lennon, analyst at Macquarie Equities, part of the Australian banking group, said that two schools of thought were developing. "The first is that Sumitomo and others have steadily liquidated their long positions ever since Sumitomo discovered Mr Hamanaka's losses on June 5 and that there are now no significant dangers in the market.

"The other view is that there remain significant long positions by Sumitomo and other traders, but, more worringly, significant hidden physical stocks, which may come back to the market."

Mr Lennon suggested the resilience of copper prices yesterday supported the view that further big falls were unlikely. Eventually, the market would start to focus on the fact that copper stocks were still very low rather than concentrate on the risk of a financial meltdown.

Mr Hamanaka has had a tremendous influence on the copper market for at least five years. On many occasions other traders suggested he was keeping prices unnecessarily high by using Sumitomo's financial strength to tie up LME stocks.

So, when rumours spread on May 17 that he was being transferred from his post as head copper trader, the price fell on worries that his successor might not wish to continue the same price support policy.

As is often the case, the market rumours proved correct and on May 20 Sumitomo confirmed that Mr Hamanaka had indeed been given a new role. In fact, it is now known that he was helping the regulatory authorities with their inquiries.

The next big plunge in the copper price did not result from any market rumours but with hindsight we can notice a remarkable coincidence. On June 6 two US hedge funds – Mr George Soros's Quantum fund and Mr Julian Robertson's Tiger fund – and Mr Herbie Black, president of American Iron & Metal, a Montreal scrap business, went into the LME's copper market and sold "short".

Their aim, traders suggest, was to drive the copper price down to a level where those investment banks that had granted "put" options (or agreed to take delivery of copper at a future date) would also have to sell to keep their books balanced.

This deluge of selling sent the copper price plummeting by 15 per cent in only two hours.

What makes all this more remarkable is that, when Sumitomo announced on June 13 that Mr Hamanaka had concealed lossed of $1.8bn, it also revealed that he had been dismissed on June 6.

'Wild ride' awaited as turmoil halts share offering

By Laurie Morse in Chicago

The effects of Sumitomo Corporation's $1.8bn losses yesterday surfaced in the copper industry, when a large US copper producer withdrew a planned share offering, citing the copper market turmoil.

Denver-based Cyprus Amax Minerals Company, which had expected to raise about $280m with the sale of 12m shares, has postponed the offering indefinitely.

The copper producer's share price has fallen almost 10 per cent since the issue was announced on May 17, which was also the day when rumours began circulating about the transfer of Sumitomo's chief trader, Mr Yasuo Hamanaka. Copper company revenues are tied directly to London Metal Exchange prices, and given the current market slide, investors are backing away from investing in some of these companies.

US copper industry executives and market analysts say they are braced for what one termed as "a wild ride" for prices this year.

"The decision is based on the recent turmoil in the copper markets," said Mr Michael Rounds, Cyprus Amax's director of communications. He said a reoffering of the shares would depend on market conditions.

Although Cyprus Amax has used warrants to construct a minimum price or "floor" for some 1.1bn pounds of its copper production through 1997, investors are still worried about the firm's revenues from copper sales, which are based on LME prices.

They said volatility in the copper market was likely to continue so long as Sumitomo still has outstanding investments which must be unwound.

There is concern on US markets that Sumitomo's copper losses could rise to as much as $2.6bn.

Nearly all of the world's biggest copper producers hedge their annual output through the purchase of "puts" that put a floor on the price they will receive for their metal. This insurance is based on an average of LME copper prices for the year.

Although the price "floor" guaranteed with these contracts varies by company and by period hedged, analysts say a large number are fixed at 95 cents a pound.

In London trading yesterday, copper prices for spot and futures delivery had fallen below this level, putting hundreds of millions of dollars worth of these options "in the money".

If prices remain low, financial institutions, believed to be derivative dealers such as JP Morgan and Banker's Trust, which sold the options to the copper producers will be faced with paying the copper companies the difference between the "insured" price and the market price.

Lack of single watchdog helped conceal losses

Japanese regulators yesterday admitted that one factor in the failure to detect the build-up of Sumitomo Corporation's $1.8bn loss over the past decade is that no single organisation in Tokyo is responsible for regulating trading companies, William Dawkins writes from Tokyo.

The Japanese government is often criticised for being a patchwork of turf battles. In Sumitomo's case, the battle is not so much for territory, as for avoidance of embarrassment. No one in the various branches of government with an interest in trading companies was yesterday prepared to admit to being in charge.

Technically, Sumitomo should be governed by the different departments of the ministry of international trade and industry, responsible for international trade, mining and commodities. Miti also supervises Japan's commodity exchanges, from aluminium to gold, an area where its trade interest verges on the financial. But, as Mr Keisuke Sadamori, Miti's deputy director of trade policy administration, pointed out with almost palpable relief, Tokyo has no copper market, despite the fact that Japan has the world's second largest copper smelting industry. "That was the first question I asked myself," he said.

Accordingly, concluded Mr Sadamori, Sumitomo had broken none of the laws and regulations that came under his ministry's purview. "This has no relevance to Miti regulations," he said. Irrelevant perhaps, but irresponsible certainly not, he added. Miti was in touch with the UK and US investment authorities and would offer help if needed.

The finance ministry, held by its opponents in other government ministries, to believe that it is in charge of almost everything, politely pointed out that trading companies are not regulated by any single Japanese authority. Any illicit commodity dealings should be policed by the UK authorities, since that is where the unauthorised trades occurred, maintained an official.

The Bank of Japan was equally discreet. Its responsibility was limited to ensuring that any fall-out from the Sumitomo loss did not damage other financial institutions, said an official.

As Sumitomo's case was passed round from ministry to ministry, one government official wondered whether there was a disturbing moral to the regulatory muddle. "There is, I suppose, a chance that when you have a number of interrelated problems such as this, that you could have systematic risk." But sensitive to Tokyo turf battles, he declined to allow his name and ministry to be published.

Netanyahu unveils sweeping reforms to liberalise economy

Hardline stance on peace talks maintained, reports **Julian Ozanne**

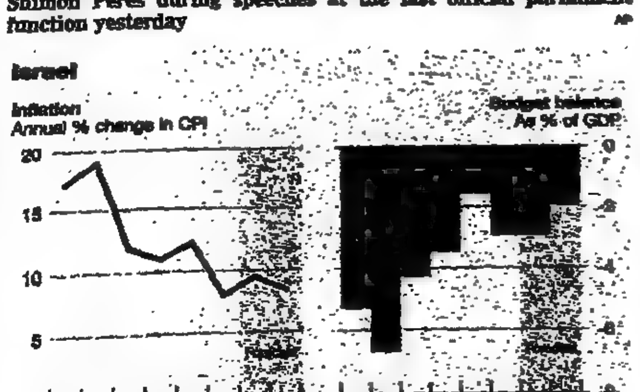
In his first official signal of future government policy, Israel's prime minister-elect Mr Benjamin Netanyahu, has committed his administration to sweeping reforms of the economy but retreated little from his pre-electoral hardline stance towards Middle East peace.

His expected line-up of cabinet ministers has also calmed the fears of foreign and local investors.

The Treasury job will be given to either Mr Dan Meridor, a Likud party moderate, or Mr Jacob Frenkel, central bank governor, rather than Mr Ariel Sharon, the hawkish former general who demanded the finance portfolio.

But policy guidelines published yesterday will give Arab states, whose leaders meet in Cairo this weekend, little hope that Mr Netanyahu will be able to sustain efforts to reach a comprehensive peace agreement in the region.


Israeli premier-elect Benjamin Netanyahu and outgoing premier Shimon Peres during speeches at the last official parliament function yesterday AP



Source: EIU

The package reflects Mr Netanyahu's conviction that his government will be marked by a transformation of Israel's domestic agenda rather than any dramatic changes in its external relations.

The real surprise in the guidelines is the extent of economic measures the new government intends to take to push ahead with liberalisation and deregulation of the economy. The government plans to reduce the budget deficit by expenditure cuts rather than increases in taxation. It will move swiftly to privatise the economy and carry out the deregulation and sale of the 92 per cent of land owned by the state.

"The government will stop the continuation of the current policy which created heavy deficits and which threaten the trade balance and the balance of payments and will take all means necessary to reduce them," the guidelines say.

Mr Netanyahu also promises to slash bureaucracy, restore public faith in the stock market, increase incentives for the development of small and medium-scale enterprises and intensify Israel's policy of trade liberalisation.

Mr Netanyahu's determination to make an immediate and radicalshift in the direction of economic policy was behind his fierce resistance to Mr Sharon's bid for the Treasury. Clearly he wanted Mr Frenkel as finance minister but he may now be forced to accept Mr Meridor or risk a rebellion by the leadership of his own rightwing Likud party.

Israel's stock market yesterday reacted positively to the unfolding of the new government and its economic policy. The Mishtanim index of the top 100 companies rose 5.07 points, or 2.5 per cent to close at 205.37.

Senior aides said part of the reason behind Mr Netanyahu's postponement of a visit to Washington from this month to next month reflected his desire to put some economic measures in place before his departure.

However, at least as important to Israel's business community and foreign investors is the new government's attitude towards Middle East peace and the policy guidelines will not be viewed as encouraging.

On the peace process with Palestinians, the guidelines commit the government to negotiate with the Palestinian Authority "with the intent of reaching a permanent arrangement" but say it will oppose a Palestinian state and will "reinforce the status of Jerusalem as the eternal capital of the Jewish people".

Palestinians view an independent state with Israeli-occupied Arab east Jerusalem as the only basis for permanent settlement talks.

The new government also pledges to allow Israeli military forces to act "everywhere", implying the possibility of breaching the peace accords by sending soldiers on special missions inside areas of absolute Palestinian sovereignty. It is also committed to maintaining Jewish settlements on occupied Palestinian lands.

Behind these policy guidelines lies Mr Netanyahu's view that he can force Mr Yassir Arafat, president of the Palestinian Authority, to accept limited autonomy in pockets of land of the West Bank and Gaza and meet all of Israel's security demands by threatening him with a continued economic blockade.

On Syria Mr Netanyahu has beaten off rightwing demands for an official freeze on talks on exchange of the Israeli-occupied Golan Heights in return for peace with Damascus.

The guidelines commit the government to negotiate with Syria without pre-conditions. But they also say: "Retaining Israeli sovereignty over the Golan will be the basis for an arrangement with Syria" – a non-starter as far as Damascus is concerned.

The guidelines reveal the continued thinking by Mr Netanyahu that somehow Syria can be induced to the negotiating table with anything less than the prospect of a full recovery of the Golan Heights – a strategy viewed as preposterous and potentially explosive by Syria.

"The form of the new Israeli government goes to show... that the region is approaching anything but peace," said yesterday's al-Baath, the newspaper of Syria's ruling party.

It adds: "Netanyahu's programme, which is full of hate to Arabs, and his insistence on keeping Arab lands is enough proof to convince everybody that the Israeli expansionist and aggressive policy is escalating."

INTERNATIONAL NEWS DIGEST

US falls behind as aid donor

The US slipped last year into fourth place behind Japan, France and Germany as a provider of government development aid, and the total declined to $59bn, the Organisation for Economic Co-operation and Development (OECD) reported yesterday.

Japan remained by far the largest official aid donor last year with $14.5bn, according to the OECD's development assistance committee. Helped partly by the strength of their currencies in relation to the dollar, France and Germany overtook the US to arrive in second and third place with $8.4bn and $7.5bn respectively.

US official aid fell by $2.6bn – 28 per cent in real terms – to $7.3bn, partly because of delays in approving its 1995-96 budget but also because of cuts in food assistance and in those peacekeeping expenditures which qualify as aid. Last year the US devoted 0.1 per cent of gross national product to government aid programmes, its lowest level since the second world war.

David Buchan, Paris

Disarmament group expands

The Geneva-based United Nations Disarmament Conference, currently negotiating a comprehensive test ban treaty, was yesterday joined by 23 new members, including Israel, Iraq, North Korea and Syria. The move brings the total membership to 61.

Under the terms of entry, brokered by South Africa, the 23 new members will renounce an individual right of veto on conference decisions for the next two years. This condition will continue to apply beyond that time to countries under UN sanctions, a move aimed at Iraq.

Yesterday's decision puts an end to three years of wrangling over Iraqi membership, and earlier rows over the entry of Israel and others, which has prevented admission even of neutral nations such as Switzerland, Austria and Finland.

The admission of new members does not directly affect the test ban treaty talks, due to end by June 28, in which the 23 are observers.

Frances Williams, Geneva

Lebanon wins Y13bn loan

The Japanese government yesterday announced its first official loan to Lebanon in 22 years. The Y13bn ($119m) credit, for drinking water supply and sewage disposal systems, was announced by Mr Ryutaro Hashimoto, the prime minister, to Mr Rafiq Hariri, his Lebanese counterpart, on the second day of a three-day visit to meet Japanese government officials and businessmen. The projects, in four coastal cities, will be co-financed with the World Bank.

The soft loan comes two months after Mr Hariri appealed to Asian governments, including Malaysia and South Korea, to help finance Lebanon's reconstruction after 17 years of civil war. Mr Hashimoto asked his visitor to tone down hostilities with Israel at a summit of Arab leaders, due to open in Cairo on Friday. In response, Mr Hariri called on Japan to join a proposed international council to co-ordinate assistance for Lebanon.

This is the first Japanese assistance for the country since an export credit granted by the Export-Import Bank of Japan in 1974.

William Dawkins, Tokyo

Quitting EU 'would weaken London's role'

By Andrew Adonis
Public Policy Editor

Mr John Gummer, the environment secretary, yesterday condemned moves to weaken Britain's ties with the European Union as "a betrayal of London which would do fundamental damage to our national prosperity".

In an interview with the Financial Times before the publication today of a government-sponsored report on the capital's economic prospects, Mr Gummer warned of the damage which isolation from the "heart of Europe" would inflict on the UK.

His outspoken remarks will fuel divisions in the governing Conservative party over Europe only a week after the largest House of Commons rebellion yet by Tory Eurosceptics and the well-publicised donation to a Eurosceptic campaigning group from Baroness Thatcher, the former prime minister.

Mr Gummer's pro-European credentials are second in the cabinet only to those of Mr Kenneth Clarke, the chancellor of the exchequer. The report he is launching, by a team of independent planning consultants and academics, claims London remains highly competitive with New York, Paris and Tokyo as a "world city" in terms of finance and business services, international institutions, tourism and culture.

The report says Tokyo, by contrast, has a far weaker international position, which might be expected to be eroded further as Hong Kong, Singapore and Shanghai increase their regional importance.

It says the UK capital faces "more direct competition than ever before" against other leading cities worldwide, particularly for its European pre-eminence as a business and cultural centre.

Mr Gummer said yesterday: "We have got to be very strong in our membership of the EU so that London is central to its operations. At this moment there are only two truly world cities – London and New York, and we have to do all we can to stay ahead."

The report, by a team including consultants from Llewelyn-Davies and Comedia and academics from University College London, says London is "perhaps the most international of all the world cities". It scores particularly highly in finance and business services.

However, the report warns "there is no natural reason why London or New York should always be the world's premier financial centres". Many "headquarters" functions could disperse "either to cheaper locations or to strengthening political centres such as Brussels".

The need for extra infrastructure investment is also raised starkly by the researchers, particularly in the field of tourism. They call for a "concerted plan" to increase capacity and improve visitor attractions, and "substantial improvements in quality and quantity" of hotel rooms.

The report said London had the capacity to double visitor numbers over the next 20 years, adding between £5bn ($7.65bn) and £10bn a year in foreign earnings. But that would happen only "if there is a concerted effort to plan and increase capacity – street life, attractions, entertainments, hotels, transport."

It also stressed the need for improvements in transport, environment and buildings contrasting government policy starkly with that in Paris, "whose transport and grands projets investments have been extremely successful in rejuvenating its image and economy".

The report does not comment directly on the case for an elected strategic authority for London, as proposed by the opposition Labour party. But it stresses that London is "by no means unusual" in not possessing an elected body covering the whole metropolitan conurbation.

Martin Wolf, Page 13

Ireland's elusive peace Fears grow of backlash by pro-British 'loyalist' paramilitary organisations

Dublin cabinet to meet today about IRA attack

By John Murray Brown in Dublin and John Kampfner at Westminster

The Irish cabinet will meet today in the wake of the Irish Republican Army's bomb attack in the English city of Manchester, with Mr John Bruton, the prime minister, under growing public pressure to offer more than another verbal rebuke to Sinn Féin.

The pan-nationalist approach has been shattered by the latest outrage and by the killing of a policeman in the republic by IRA members 10 days ago. The approach is centred on securing Sinn Féin's acquiescence to a settlement in Northern Ireland, with the backing of the moderate nationalist Social Democratic and Labour party and of opinion among Irish Americans.

There was a feeling yesterday in the Dail, the lower House of the republic's Parliament, that the policy of accommodating hardline republican organisations had run its course.

Unlike at Westminster, no mainstream Irish politician is talking about internment – detention without trial. However, there appears to be a general acceptance that if the atrocities continue, a security clampdown may be necessary.

Mr Des O'Malley, the deputy leader of the opposition Progressive Democrats in the republic, said: "The ceasefire has been comprehensively broken. The question now is whether the government should re-arrest those IRA men who were released from prison during the ceasefire. Under the legislation they would have the power to do so."

The immediate response of the coalition government in the Republic of Ireland is likely however to be less emotional than the weekend television performance of Mr John Bruton, the prime minister. Mr Bruton feels personally let down by Sinn Féin, having pursued a policy of accomodating the republicans which many observers believe was against his better instincts.

British ministers, while appreciative of Mr Bruton's consistently harder line, fear that once the immediate outrage has passed, the Irish cabinet will be unable to agree on any fundamental reappraisal of policy.

Senior MPs in London believe that the spotlight will now be trained on Dublin. "All we can do is press ahead with sensible security measures while making clear to Sinn Féin that we will no longer be so amenable. Beyond that, it's up to the Irish," said a leading Conservative member of the House of Commons.

Mr Seamus Mallon, the SDLP deputy leader, told Irish radio that the republican movement faced "a moment of truth". Quoting a Chinese proverb, he said it was one thing to be fooled a first time, but something quite different to be fooled twice.

The events of the past 10 days have had a cathartic effect on attitudes towards Sinn Féin and the republican movement south of the border. The Irish police report a record level of response to their request for information on the IRA gang suspected of involvement in the killing Detective Gerry McCabe. Such a response would have been anathema to many Irish people before the latest outrages.

Many Irish people blame their government for being too lax in its programme of prisoner releases and in not maintaining its surveillance of republican suspects during the ceasefires.

Worries about the IRA's paramilitary activities have been exacerbated by reports of vigilante murders of drug dealers and small-time criminals in Dublin and elsewhere.

Fianna Fail, the main opposition party, and traditionally the party with the closest links with Sinn Féin, cautioned against breaking off ties. "If you break the link, you have no influence. Then we're back to the 25 years of violence," said Mr Dermot Ahern, a Fianna Fail deputy for the border region.

Mr Dick Spring, the Irish deputy prime minister and foreign minister, conceded that there were confusing signals from the republican movement. Hitherto the government's line had been that the republican movement was engaged in a fierce internal debate, over which Mr Adams had little or no control. In government circles there was a growing incredulousness at Mr Adams's profession of ignorance of the actions of the IRA.

However, in an implicit criticism of Mr Adams, Mr Spring remarked curtly that the cabinet meeting would seek to make an assessment "whether or not the leadership is serious about bringing an end to the violence." Mr Bertie Ahern, the Fianna Fail leader, conceded that the government could not continue "indefinitely" to accept Sinn Féin's bona fides.

After the IRA ceasefire

Feb 9: Blast at Canary Wharf in east London: two die and more than 100 injured. Bomb explodes an hour after statement issued in Dublin says that "with great reluctance . . . the complete cessation of military operations will end at 18h00".

Feb 10: Pro-British paramilitary groups in Northern Ireland do not order immediate retaliation and say they will "consider their position in a calm and orderly way".

Feb 13: Three main parties in Republic of Ireland condemn IRA for ending ceasefire.

Feb 15: "Device" left in London phone box is made safe by Scotland Yard.

Feb 18: Semtex bomb being carried on bus in central London by IRA volunteer Edward O'Brien explodes, killing O'Brien and injuring four other people.

Mar 9: Bomb explodes in litter bin in west London; no casualties.

Apr 17: Another bomb explodes in west London; no casualties.

Apr 24: Large bomb planted near Hammersmith Bridge over Thames in west London fails to explode.

Jun 7: Two police officers in car escorting Post Office van in Adare in the Republic of Ireland are shot after car is rammed. One of the two, Detective Gerry McCabe (52) dies soon afterwards. IRA denies involvement.

Jun 13: Sinn Féin president Gerry Adams condemns killing of McCabe and says he accepts IRA denial. Commissioner Patrick Culligan, head of the police in the Irish Republic, says he is certain IRA killed McCabe.

Jun 15: IRA says some of its members were involved in Adare shooting in contravention of orders against attacking enforcement authorities in republic; bomb explodes in Manchester shopping district – hundreds injured by flying glass.

Jun 16: "Punishment beating" in Belfast: youth aged 16 has arm and leg broken by masked men using iron bars. Youth says men said they were from IRA.

US may adopt harder line on visas for Sinn Féin

By Jimmy Burns in London

The US administration is thought to be prepared to harden its policy on visa applications for known republicans including Sinn Féin president Mr Gerry Adams if they do not disassociate themselves fully from the resumption of terrorist violence.

But the administration appeared to be holding back yesterday from taking the political initiative on Northern Ireland, adopting a wait-and-see attitude while the governments of Britain and the Republic of Ireland assessed the implications of the Manchester bomb.

With both UK and Irish intelligence providing few clear clues about the position of the IRA in the aftermath of the bomb, US officials were remaining cautious. Officials in Washington believe the next few days could prove critical in deciding whether the current peace process can hold itself together.

One area of particular concern to Washington remains the degree of influence exerted by Mr Adams on the republican movement as a whole. While it is looking to Mr Adams to come out firmly on the side of peace, Washington would equally like to be reassured that he can carry not just Sinn Féin but the majority of the IRA behind him.

A senior Sinn Féin official, Mr Mitchel McLaughlin was allowed into the US last week as part of the Clinton administration's policy of trying to encourage dialogue on the Northern Ireland question.

But US officials were shocked by the weekend bomb which shattered their belief that a ceasefire was close to being declared by the IRA.

The administration was hoping that this would in turn pave the way for Sinn Féin's inclusion in political talks.

● Fears increased yesterday of a backlash by pro-British paramilitary groups in response to the IRA's bomb in Manchester, John Murray Brown writes in Dublin. The largest of the Northern Ireland Protestant terror groups said it had placed its personnel on alert in response to what it claimed were IRA plans to resume violence in the region.

The statement from the Ulster Freedom Fighters, which is linked to the Ulster Democratic party, called on the IRA to reinstate its ceasefire. On Sunday, before the statement was issued, Mr Dick Spring, the Irish deputy prime minister and foreign minister, said the pro-British paramilitaries had responded with great restraint to IRA provocation.

Mr Billy Hutchinson of the Progressive Unionist Party, which is aligned with the thinking of the Ulster Volunteer Force, said: "Every time an IRA bomb goes off it puts pressure on the loyalist ceasefire. Every time it goes off means we are a step closer to a resumption of loyalist violence, unfortunately."

Security sources believe loyalist paramilitaries were involved in a reconnaissance dummy run when a hoax car bomb was discovered at Dublin airport last month.

The governments of Britain and the Republic of Ireland are expected to continue to resist calls for the reintroduction of internment, Jimmy Burns writes in London. Both governments have the legal powers needed to introduce detention bof terrorists without trial at short notice. They have identified people whom they believe are leaders of the Irish Republican Army as well as many members and sympathisers who could be arrested in a big crackdown.

But enforcement authorities and government officials believe than any security advantage that might be gained by carrying out wide-spread arrests would prove short-term and would produce negative political fall-out.

Internment was last used from 1971 to 1975 when the level of violence in Northern Ireland was much greater than now.

Internment temporarily disrupted IRA operations and provided some intelligence about the organisation. But it led to an upsurge in violence and in recruitment for the IRA, and alienated the nationalist community from the political process.

Labour party hints at shift in beef policy

By Robert Peston in Bonn

Mr Tony Blair, the leader of the opposition Labour party, was positioning himself yesterday to end his party's qualified support for the Conservative government's non-cooperation policy in the European Union.

He signalled that Labour's patience was wearing thin on a short tour of Germany, where he met the Chancellor, Mr Helmut Kohl, and the German president Mr Roman Herzog.

He insisted to the German leaders that the scientific case for removing the ban on British beef exports was strong, while recognising that the European public remains to be convinced.

However, he indicated that this week's summit of EU government heads in Florence would be a turning point in Labour policy. One of his close aides said that, given the scale of the government's anti-EU offensive, Labour would judge as a success nothing short of a firm timetable for lifting the ban and a package of financial aid to British farmers additional to EU budget rebates.

Since British ministers have been playing down expectations of agreement on this scale, Labour has given itself room to attack the government's tactics after Florence. "A lot depends on what happens in Florence", said an aide.

The government should conduct a "massive exercise in negotiation, diplomacy and communicating why British beef is safe" to secure EU agreement at Florence, Mr Blair said after his meeting with Mr Kohl.

The Labour leader defended his current united front with the government. He told Mr Kohl that it would have been against "the national interest" for Labour to attack the prime minister's efforts to have the ban on British beef exports lifted. It was "essential we do nothing to undermine" that, he said.

In all his meetings, Mr Blair is stressing that a Labour government would want a "fresh start" in British relations with the EU, based on a more "positive approach".

"Our best interest is served by being strong in Europe" he will tell the biennial conference of the German employers' organisation, the BDI, today, while attacking the veiled calls of some in the governing Conservative party for the UK to withdraw from the EU.

He will make it clear that Labour is far more sympathetic to European monetary union than the government, saying that the primary obstacle to a Labour government signing up for a single currency is the need for the UK economy to become more robust.

A Labour official said Mr Blair would tell the BDI that Labour had "no overriding objection to a single currency". But the official said that Mr Herzog and Mr Kohl both made it clear that Germany was intent on participating in monetary union at the earliest possible date of 1999.

Mr Blair's trip to Germany has attracted considerable local media interest. His meeting with Mr Kohl lasted 90 minutes, double the time scheduled.

Labour is considering plans for a significant strengthing of the powers of the UK's utility regulators, Jamnes Blitz writes at Westminster. They would be given the right to identify and punish anti-competitive practices. In a new indication that the party is determined to attack restrictive practices, Labour's trade and industry team has been examining plans to allow utility regulators to act as "market policemen".

Regulators already have considerable powers to draw up rules, mainly affecting consumer services and prices. But Labour believes that the regulators would also be far better placed than the Office of Fair Trading to make swift decisions on anti-competitive practices. It is believed Labour's desire for faster decision-making reflects the delays in resolving competition issues in the telecommunications industry.

The subject of this portrait was long believed by eminent authorities to be Lady Jane Grey, who survived as queen of England for only nine days in 1553. Now a Canadian scholar, Susan James, has demonstrated that the lady is Catherine Parr, the sixth and last wife of the flamboyant Tudor king Henry VIII.

Buses turn to gas fuel to beat pollution

By Charles Batchelor, Transport Correspondent

The National Express coach group is to start running a fleet of 14 gas-powered buses on a busy route in the west Midlands in an attempt to reduce exhaust emissions, it announced yesterday.

The company joins a growing number of bus operators and local authorities to introduce gas or electric-powered vehicles to reduce pollution in city centres. While the cost of vehicles is high, operators feel it is important to keep ahead of legislation.

The west Midlands suffered particularly badly from pollution last summer and diesel vehicles are believed to be one of the biggest causes. Operators are worried they will be banned from city centres if the problem persists.

A total of 150 buses similar to those ordered by National Express are already in use in Gothenburg and Malmo in Sweden. About 900 gas-powered buses are in use worldwide while a further 500 are on order, according to a recent report by the UK National Federation of Bus Users.

West Midlands Travel, a National Express subsidiary, will spend £2m ($3.06m) on Volvo buses powered by compressed natural gas (CNG).

The advantages of CNG include low emission levels and the almost complete absence of sooty particles, the company said. Unlike liquefied petroleum gas (LPG), which has to be delivered by tanker, CNG can be supplied from the national gas grid.

However there are disadvantages to using CNG. By comparison with the rest of the European Union, Britain imposes a high level of fuel duty on natural gas. CNG is stored under pressure but requires more space than LPG and diesel.

A bus with a 250litre diesel tank would require a 1,200 litre gas tank – often on the roof – for an equivalent mileage. A gas engine is also 10 per cent less fuel efficient than a diesel engine.

UK NEWS DIGEST

US bank to open London office

Some of the US's top high technology investment bankers are expanding their London operations in anticipation of a boom in flotations for European growth companies. Hambrecht & Quist, the San Francisco-based investment bank which is one of the US's leading specialists in the electronics, healthcare and consumer goods sectors, announced yesterday that it is to open a London office to provide corporate finance and brokerage services to emerging companies in Europe.

It follows hot on the heels of Robertson Stephens, another San Francisco-based investment bank which was one of the leading sponsors of stock market flotations last year in the same high technology and healthcare sectors.

The US arrivals come as European stock exchanges expand their efforts to attract smaller companies to the market and just a few months before the scheduled opening of Easdaq, a Europe-wide exchange for smaller companies modelled on the US Nasdaq. Mr Joshua Rafner, head of investment banking at Hambrecht & Quist, said his firm saw Europe as "the prime growth area for technology and life science stocks in the next 20 years."

The US investment banks have already begun to introduce European companies to the Nasdaq market in New York, and want to attract European investors to the high-growth sectors in which they specialise. Hambrecht & Quist already has joint ventures with Beeson Gregory in London and with Crédit National in Paris, and is looking for partners in other European countries.

George Graham, Banking Correspondent

Outhwaite Names in court

LLOYD'S

The Outhwaite 94 Names Association has issued writs in the High Court on behalf of 900 Names, who are investors whose personal wealth has traditionally supported the Lloyd's insurance market. They claim their syndicate faces losses of up to £300m ($460m) in respect of the 1990 year of account. The defendants include the underwriting agency RHM Outhwaite, Mr Richard Outhwaite and auditors Ernst & Young. The issuing of writs, which was expected, comes when Lloyd's is seeking agreement to its plan for reconstruction and renewal. The association said there was still "room for improvement" in the terms of the offer. If Names in general agree to a settlement, the suit will become superfluous for most of those involved.

Jim Kelly, Financial Services Staff

Radio fees may rise 300%

Mobile phone companies and other groups offering radio-based services could find their radio spectrum licence fees increased by more than 300 per cent under government proposals set out yesterday. Cellular operators such as Vodafone or Cellnet which currently pay £28,800 ($44,100) for a national radio channel could be paying £177,000 under the proposals, published in the consultation paper. Mr Ian Lang, trade and industry secretary, said the aim was to encourage better management of scarce spectrum. Radio spectrum is managed in the UK by the Radiocommunications Agency which currently sets licence fees to recover the costs of managing the spectrum – about £38m a year – rather than the value of the spectrum to an operator.

There is, therefore, little incentive to use spectrum efficiently or to return to the Agency unused spectrum. As a consequence there is a scarcity of spectrum and congestion of the airwaves, especially in city areas. Orange, the mobile phone operator which would see its fees rise from £28,800 to £96,000, said it welcomed the proposals if they encouraged better use of the available spectrum.

Alan Cane

Biggest trade union issues tough warning on pay

By Andrew Bolger, Employment Correspondent

Unison, Britain's largest trade union, yesterday sent a strong signal that an incoming Labour government would face strong pressures over pay in the public sector and over a national minimum wage. At the moment Britain hads no statutory minimum wage level.

The annual conference of the union, which has 1.3m members, voted to "redress the balance caused by the freeze imposed on the public sector pay bill over the last few years which has seen pay levels lag behind the average increases in the economy".

The delegates in the southern England town of Bournemouth also promised to resist any moves towards continuing government-imposed incomes policies. Mr Rodney Bickerstaffe, Unison's general secretary, said it would be hypocritical for MPs to vote themselves a 30 per cent pay rise and then insist that any other public sector pay increases be funded by redundancies or improved productivity.

On minimum pay, Unison reaffirmed its target of half male median earnings – currently £4.26 ($6.50) an hour – in spite of the Labour party's refusal to set a figure before the next general election. Mr Bickerstaffe said: "We don't want a rate so low that everyone is exploited." The conference defied its executive and supported an amendment which instructed the union to put its £4.26 figure in a motion to the Trades Union Congress in September. Last year, the TUC voted in principle for a minimum wage, but succumbed to pressure from the Labour party's leadership not to specify a figure.

The Unison conference also expressed opposition to the economic convergence criteria within the European Union's Maastricht Treaty. If a British government called a referendum, Unison said it would campaign against joining the single currency "unless these criteria are substantially changed in favour of economic growth and full employment". Mr Bickerstaffe said: "The way forward for Britain, for Europe, for the world economy, cannot be on the basis of simply cutting back welfare services."

Unison conference delegates said the Maastricht Treaty enforced a deflationary monetarist regime throughout Europe. "There is a clear division of views between deflation and monetarism on one hand and a reflationary growth strategy, with government intervention to ensure its success, on the other. It is not possible to ride both these horses at the same time."

● Friday's one-day strike by mail workers will go ahead in spite of talks yesterday between the Royal Mail division of the Post Office and the CWU trade union.

The revelation that plastic can conduct is no longer the answer to an unasked question, says **Vanessa Houlder**

Electrifying effects

For years, nobody doubted that plastic was an insulator. The rationale was simple: plastic could not conduct electricity because its atoms were bound in such a way that the electrons had no freedom of movement.

This idea was so deeply entrenched that the discovery in 1977 of a plastic that could transmit electricity was met with incredulity. "A lot of people did not believe it," recalls Alan MacDiarmid, one of the chemists at the University of Pennsylvania who synthesised the compound.

But the sceptics found that the results could be replicated. When a pinch of iodine was added to a particular form of polyacetylene, its conductivity increased by more than a million times.

By "doping" the plastic with atoms that were able to give up spare electrons to the polymer bonds – or grab extra electrons back – the chain of organic molecules in the plastic became electrically unstable. As a result, the electrons could flow across the length of the polymer when a voltage was applied.

The discovery was a breakthrough in materials science. The polymer had the flexibility and ease of processing of conventional plastic but the electromagnetic, electronic and optical qualities of metal.

Yet the applications of the newly discovered substance were not immediately apparent. "When we first put conducting polymers on the scene, people said that they had the ideal answer for the question that had not yet been asked," says MacDiarmid.

On the face of it, that comment still holds true. Conductive plastics have few mainstream applications. For most roles, these "synthetic metals" are more expensive and poorer conductors of electricity than ordinary metals.

But champions of conductive polymers argue that their benefits do not depend on cost advantages but on the unique properties of the polymer itself.

There has been no shortage of interest in exploring these properties. Companies such as AlliedSignal, BASF, IBM, and Neste of Finland have invested in the field. The number of academic researchers has expanded: the last conference on synthetic metals produced nearly 1,500 abstracts.

Examples of applications that have already materialised include anti-static flooring, electromagnetic shielding for equipment in aircraft, batteries with very slow discharge rates, electrochromic displays for car sun-roofs that change colour on the application of a voltage, and "electronic noses" that detect gases because the chemicals change the conductivity of a thin film of conductive polymer.

One goal is to make a lightweight, flexible display, such as a flat TV screen or a roll-up electronic newspaper

Other applications still in development include a replacement for lead solder in joints in electronic equipment, which IBM is working on in conjunction with the University of Pennsylvania.

Many of the most intriguing applications have resulted from developments in the fundamental understanding of conductive polymers. Although researchers do not fully understand these materials, the arrangement of the polymer chains and their purity have been shown to have a crucial influence on their properties.

These insights have helped researchers to increase the conductivity of doped polyacetylene from its 1977 levels of 38 siemens per centimetre to at least 80,000 siemens per centimetre. Weight for weight, that is comparable to the conductivity of metal, although it is about 100 times less than metal in volume terms.

Some scientists are working on methods that could improve plastics' conductivity still further. In the UK, for example, at the University of Durham, researchers are trying to improve the properties of polyaniline to the point where it could replace copper braids in coaxial cables.

There is still no agreement among scientists in the field as to what the maximum conductivity of conducting polymers might be. "As far as science is concerned, the sky is the limit," says MacDiarmid. "There is a huge amount to be discovered."

Increasingly, researchers have turned their attention to investigating polymers that ape semiconductors. In particular, scientists have focused on the consequences of two scientific breakthroughs in 1990.

One was the development of a polymer transistor by Francis Garnier at the Laboratory of Molecular Materials in Thias, France. Its advantage was that it was entirely flexible; the disadvantage was that it was slow – the mobility of the electrons was 100,000 times less than inamorphous silicon.

By improving the molecular organisation of the conductive polymer, Garnier has substantially speeded up the electrons' mobility to the point where it could be used in a basic display, such as that for a microwave oven, which does not need fast electronics. He anticipates further improvements. "By the end of this year, we will have mobility equivalent to amorphous silicon," he says.

Philips, which has collaborated with Garnier's team in the past, also reports "outstanding research results" in the field of plastic electronics. It believes that their possible applications are liquid crystal displays, radio frequency identification tags and simple chip card applications – although these are still far off.

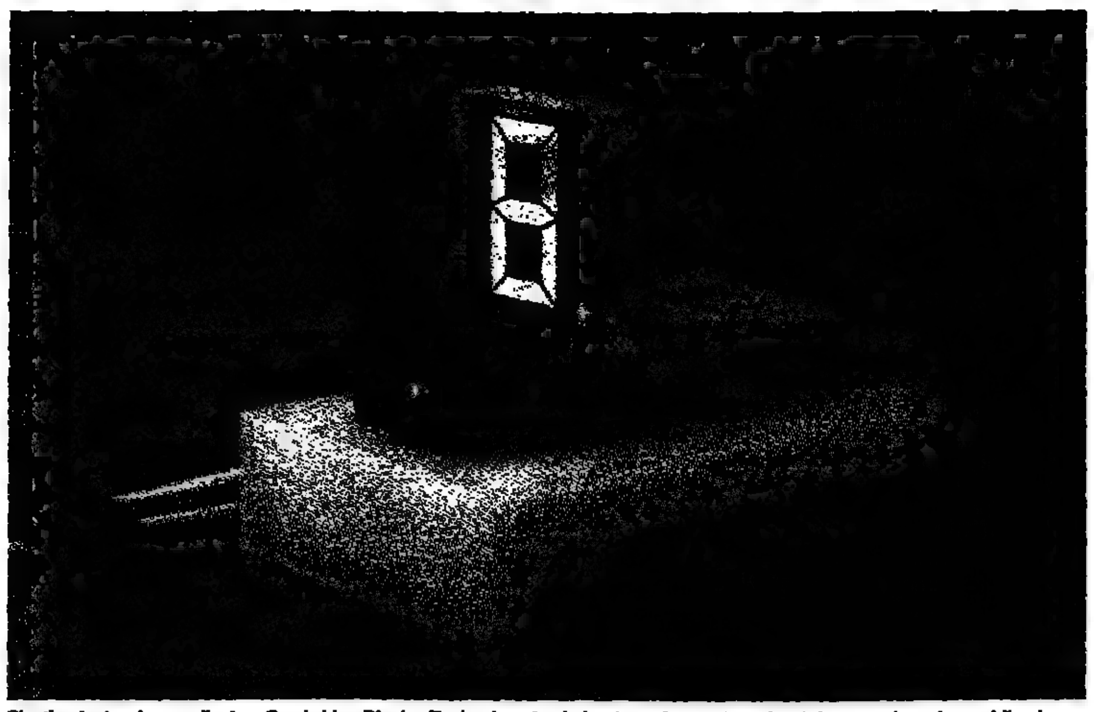
The other important development of 1990 was the work of Richard Friend and colleagues at the University of Cambridge.

They sandwiched a conducting polymer – poly-p-phenylenevinylene or PPV for short – between two electrodes. The positive terminal removed electrons from the plastic – the equivalent to introducing positively charged "holes". When electrons from the negative electrode fell into these holes, they gave off energy in the form of photons.

Cambridge Display Technology, the company set up to exploit Friend's advance, believes it can turn the concept into a marketable device, such as a display for a mobile telephone, by the end of 1997. Uniax, a company based in Santa Barbara which is working on rival technology, has similar goals: a prototype early next year and a commercial product in the next 18 months to two years.

One of the ultimate goals for researchers is to make a lightweight, flexible display, such as a flat television screen or a roll-up electronic newspaper. Such a development is not yet on the horizon. In any case, light-emitting polymers would be up against stiff competition from alternative technologies.

But Friend is optimistic about their potential. "The intrinsic stability of polymers as semiconductors is looking very good and the ability to generate light is better than I ever thought it could be," he says. "The more we learn about the materials, the more promising they look."



Plastic electronics on display: Cambridge Display Technology is aiming to make marketable devices, such as for mobile phones

Versatile material for better batteries

While many of the companies that have been exploring conductive plastics are household names, smaller players, such as Taiwan-based KI Co, have also been active in the field.

In April this year, KI, a high-tech consultancy, said it had developed a plastic material which is both conductive of electricity and readily processible and is moving to commercialise its prototype products. Its findings were presented at a conference in the US last month.

Although the material is nowhere near as conductive as copper, KI believes it has the potential to transform the manufacture of rechargeable batteries and coaxial cables used in telecommunications.

It also has certain defence-related applications. KI has applied for patents.

Laboratories around the world have been struggling to solve the puzzle of how to make ordinary plastic conductive without using any metal. But although the research groundwork had already been done, the goal of physically producing a material that could be commercialised had proven elusive.

KI says its material can be processed much like ordinary plastic – melted, moulded, extruded or powdered – or made into paint or adhesive.

To produce it, the basic plastic material is processed before undergoing "doping" to make it conductive.

KI has been discussing possible co-operation with Microelectronics Technology, another Taiwanese company which has developed technology used for transportable and maritime satellite communications equipment.

The battery used in such equipment is heavy and lasts for about an hour, but Chen Chien-yi, KI's chairman, says the aluminium alloy in the battery could be replaced with the conductive plastic, reducing its size and weight and increasing battery life.

Recently, Chen demonstrated a prototype one-volt rechargeable battery made using the plastic. Based on this simple model, a one-volt battery could be produced which is the size of a credit card or even thinner, he says. Such a battery could eventually replace the normal nickel metal hydride - rechargeable battery. It would be more powerful, recharge faster and produce no heat as well as being lighter, says Chen.

He also demonstrated how an ordinary piece of transparent plastic sheet, such as that used for an overhead projector, could be made conductive by thinly coating one side with conductive plastic "paint".

Similarly, he showed how paper sprayed with a thin layer of the "paint" can become conductive too. He says such conductive paper, or a conductive tape made from the plastic, could replace copper in coaxial cables, widely used in telecommunications.

Laura Tyson

Giants score on TV ads

The San Francisco Giants in the US will become the first major league baseball team to use defence industry technology to capitalise on advertising revenues earned during live broadcasts.

For the current baseball season, the Giants have signed a contract with New Jersey-based Princeton Video Image, which uses a technology that can overwrite advertising on perimeter boards surrounding a sporting event with promotional material for another advertiser.

The genesis of the product is military technology designed to pick out missiles from their surroundings and track and destroy them.

PVI's proprietary L-VIS system inserts electronic signage, advertising or product displays into live programming with colour, lighting and motion so precise that viewers will not know it is happening.

There are at least two other providers of similar technology. One is Symah-Vision, a company in France's Lagardere Group, while the other is a joint venture between sports promotion company ISL and Orad, an Israeli defence contractor.

Brown Williams, president of PVI, says there has been limited use of the technology so far in the US's vast sports advertising market. It has been used for so-called Big Ten college football games broadcast on a sports cable channel and at least once on network television for the popular "Sugar Bowl" annual football game on New Year's Eve.

The technology is particularly important for the San Francisco Giants because, Williams says, no advertising is permitted on the hoardings around the stadium. The games will be seen by local viewers on KTVU-TV and on the cable channel, SportsChannel Pacific.

Advertisers on the newly created ad space include international brands such as Kellogg, the world's biggest cereal maker, and GTE, the telecommunications company, as well as a local supermarket chain.

Norma Cohen

A fashionable but facile show

British sculpture has not been given its just deserts at the Jeu de Paume, argues William Packer

Despite its remodelling after the eccentric modern fashion, the Jeu de Paume, overlooking the Place de la Concorde, is still a most beautiful gallery. Modern art looks very well in it and, with a couple of exceptions, this latest show, *Un Siècle de Sculpture Anglaise*, taken piece by piece, is shown to great advantage, with the larger pieces no less impressive outside in the gardens.

But any curated and thematic show should surely be something more than the sum of its parts, and we know we are in trouble the moment we find the *sculpture anglaise* of the title given in the English version of the handout as "British". Such sleight of hand might fool the French but not us. Surely some mistake, we might say, and when we read the list of artists represented, from Epstein to Anish Kapoor, we begin to wonder quite whose mistake it is.

The show is glossed in the British Council's own literature as the most ambitious ever mounted at the Jeu de Paume, and the first major survey of British sculpture of the 20th century to be seen in Paris. But it has been chosen and curated by a Frenchman, Daniel Abadie, the director of the Jeu de Paume, very much as a personal exercise, hence no doubt the insensitivity of *anglaise* and the partiality and critical wilfulness of the selection. Here then is a wonderful opportunity squandered. We can only ask how it was that he was allowed to get it so wrong.

For wrong it is. It begins with Epstein and a single piece, the "Rock Drill" *torso (1916) set* so high in the entrance lobby as to be easily missed in the bustle for tickets. It alone represents the sculpture of the 1910s and '20s which the student Henry Moore, just back from the wars, found so stimulating. Epstein, expatriate American and Jewish outsider, is at least included, but there is nothing of the expatriate Frenchman, Gaudier-Brzeska, nothing of Gill, Dobson, Jagger, Skeaping.

The show proper starts indeed with Moore – with a sidelong glance to Barbara Hepworth and Ben Nicholson, in his dubiously sculptural persona – in the 1930s. Thus again is the myth perpetuated, in which Moore himself connived, that the story of Modern British Sculpture begins with Henry Moore. It is not to deny Moore's central importance, but rather to enhance *it*, to insist upon the context out of which he emerged.

And so the show goes on in much the same partial and tendentious way, which would not matter if Abadie was *only saying at each point that this* is what he liked, or what interested him. He mysteriously gives us Eduardo Paolozzi's collages of the 1940s and early '50s, then jumps to his abstract assemblages of the 1960s. There is nothing at all of his grotesque figuration of the 1950s, nothing of his fellow Scotsman, William Turnbull, nothing of Reg Butler, Armitage, Dalwood, early Caro, Meadows or Chadwick – nothing in short of that post-war generation that first suggested there was life in British sculpture after Henry Moore. For the 1950s, it is only Henry Moore.

Into the 1960s and again there is only Phillip King to suggest that there was anyone but Caro and Paolozzi making the new abstract *sculpture – no Tucker, Scott, Hall* or Panting. In the 1970s it is only Flanagan, Long, Gilbert & George and Michael Craig-Martin, in the 1980s Deacon, Cragg, Woodrow and Kapoor, in the 1990s Gormley, Rachel Whiteread and Damien Hirst.

Now not for one moment *do* I say there is no case to be made for showing any one of these artists, either collectively or singly. But to throw them *here* together so *casu*ally serves neither them nor us, nor the cause of British sculpture.

This is a facile but above all a fashionable show. British sculpture in its successive generations since the war has been of continuous interest abroad, the one field in which we might reasonably claim a *sustained international* pre-eminence. It has been a success fostered over many years by the British Council, and quite right too. But we have also seen the development of a curiously self-sustaining cycle. Why, we ask, are our sculptors so often shown abroad, rather than our painters? Because there is so much interest in them, comes the answer. Why is there so much interest? Because they are so well known. And why are they so well known? Because we have shown them so often.

But there is one further twist to it that might explain if not excuse Daniel Abadie's myopia and short memory. Those in whom there is such interest are only those who *have* been so assiduously supported, and shown and shown again. The interest turns out to have a very narrow focus, which this show at the Jeu de Paume could hardly fix more sharply. And what was being *done* for Moore and Hepworth long ago is still being done for Caro, Long, Flanagan, Deacon, Cragg, Gormley, Whiteread, Hirst. Good luck to them, but there are so many others too, who have worked in the rich, broad field *of* British sculpture.

A Century of English Sculpture: Galerie Nationale du Jeu de Paume, Paris 1, until September 15; sponsored by UAP Assurances and presented in association with *the* British Council.

Theatre

All rant and rave

Confess yourselves wondrous malicious/Or be accused of folly.

The bad boy of British *theatre is back* and his latest production is a bit of both. "Berkoff as Coriolanus" yells the bold, white-on-black banner emblazoned across the entrance to the Mermaid Theatre, but that is only part of it. He has also designed and directed this production seen *last year at the West York*shire Playhouse.

It is impossible not to admire Berkoff's staging. In terms of the abundant physical skills of his company, he plays to strength. Eight highly drilled actors in black-shirts and jackboots play everything from the rioting Romans to *the Volscian warriors with* minimal costume changes and to maximum effect, drawing on rigorous mime, freeze-frame and stylised action. The bold, cold fight sequences have a visceral charge and the stark simplicity of their conception and execution is hugely impressive. The sudden shift in space when the Volscian guard line up against David Henry's Menenius by springing to a perfect diagonal across the geometric marbled floor has great dramatic simplicity.

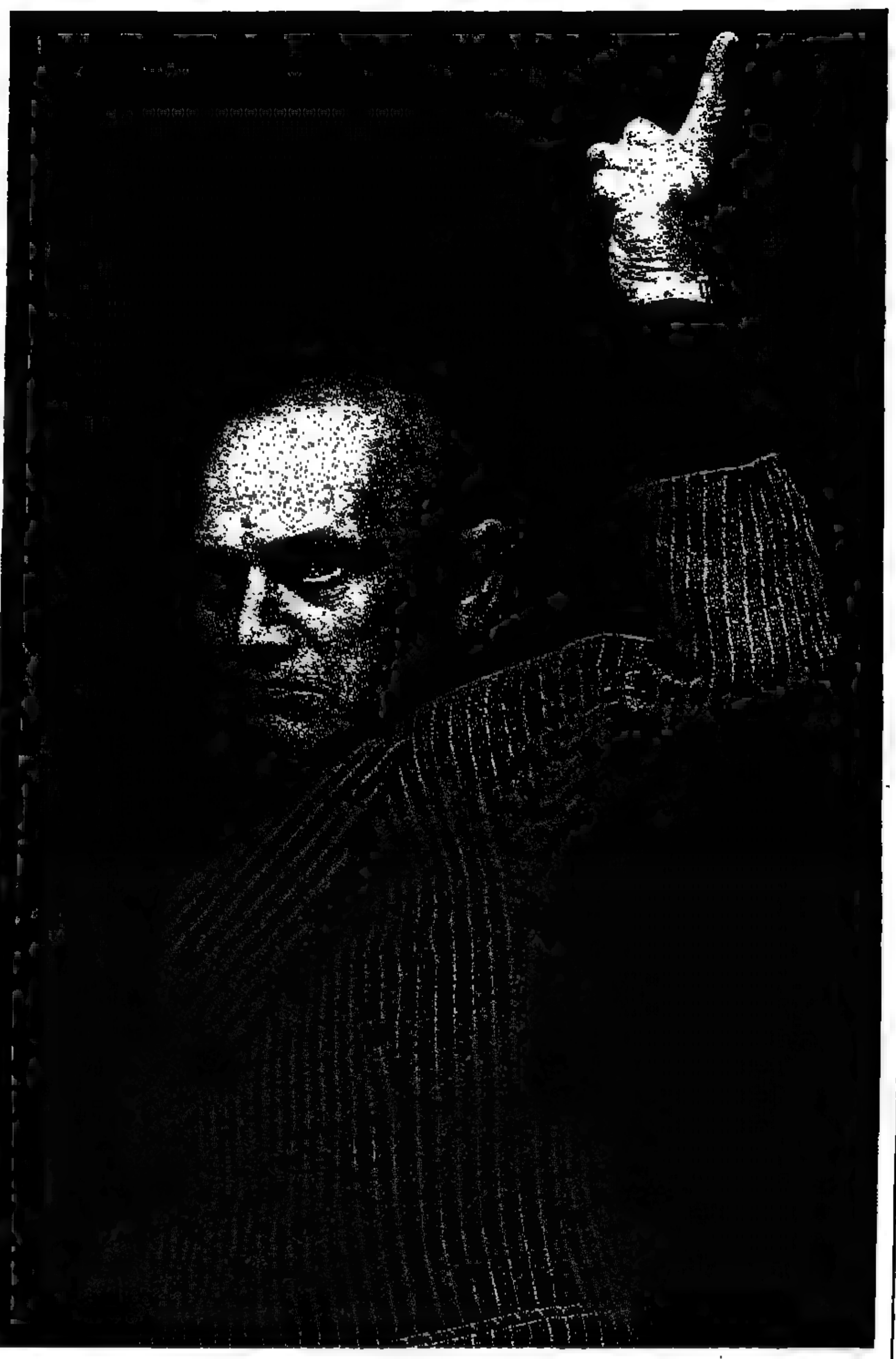
Paradoxically, that simplicity bedevils the characterisation. Detail and individuality are lost. The actors are so busy declaiming, you rarely get the sense they are listening to one another. At times, the language is so heavily underlined with action, it is as if you are watching a foreign-language film, complete with percussive musical soundtrack. The decibel count is so high that the language is too often flattened through over-emphasis. Berkoff never allows the text to breathe, which means that even when you are impressed by what you are witnessing, you admire it, rather than become involved in it.

No-one is going to accuse this production of understatement. A charismatic, crop-haired, sharp-suited figure fighting to control warring factions, Berkoff's portrayal of the title role looks like an enraged cross between the Royal Opera House public relations supremo Keith Cooper and its conductor Sir Georg Solti. Not that this London-vowelled bully ever sounds remotely like the son of Faith Brook's steely aristocratic Volumnia. The swoops and snarls, rants and roars in his dazzling armoury of vocal mannerisms stymie his physical prowess and his overwhelming, sneering rage is curiously inexpressive. You feel the actor's physical tension and intransigence, not the character's.

Like Iago, Tullus Aufidius is one of Shakespeare's show-stealing roles. True to form, Colin McFarlane seizes the opportunity with a markedly still physical presence and a blessedly quiet authority. His sudden burst of anger at Coriolanus's capitulation to Rome is genuinely shocking. So much so, that you realise what you have been missing the rest of the evening.

David Benedict

At the Mermaid Theatre, London EC4 (0171-236 2211).



Alastair Muir

A dazzling armoury of vocal mannerisms stymie his physical prowess: Steven Berkoff as Coriolanus in his own production

Ballet/Clement Crisp

Picasso recreated in Nice

Three cheers and more for imaginative programming. Today, when most mixed ballet bills look as if they are prime displays of chaos theory, the example of Jean-Albert Cartier is salutary. For years – as director of the Nancy Ballet, then of the Théâtre du Châtelet, then as administrator of the *Paris Opera Ballet, now as director of the* Nice Opera – he has put together evenings where a theme has been illuminatingly explored.

A Massine triple bill last year restored a tremendous *Rite of Spring* to the stage. A recent Ashton evening gave French audiences a rare chance to understand our founding choreographer. Now a programme of work decorated by Picasso includes another coup: a first chance in more than 70 years to see the *Cuadro Flamenco* set as it was intended to be. The effect of the evening, as I saw on Friday, is intoxication for the eyes as well as delight at the balletic acumen displayed.

Picasso's involvement with ballet, not least because of his first marriage to the Diaghilev dancer Olga Khoklova, was vivid and came at key times in the history of the Ballets Russes. In *Parade* of 1917, and *Tricorne* of 1919 – both in the Nice programme – we see stage decoration as central to the balletic image. The two managers in *Parade*, the quintessential Spanish landscape and the prodigies of local costume in *Tricorne*, are the most potent guides to the world we enter.

In the scrupulous Nice revivals by Susanna della Pietra and Enrico Sportiello, *the ballets look as good as when I first* saw them in Massine's own productions, and the proportions of the Nice Opera stage admirably suit their action and shape. Both are focused, in visual elements as in choreographic text, and the Nice troupe dance them with a clear appreciation of their strong flavours. (Our local versions of *Tricorne* have had a distinctly Bognor-out-of-season air.)

Jose Martinez in 'Le Tricorne'

The presence of Jose Martinez as a guest from the Paris Opera is an undoubted bonus: his Chinese conjuror in *Parade* is nicely enigmatic; his Miller in *Tricorne*, a role he has danced with great success in Paris, has the youth and the taut rhythmic sense, the electric shape to every step, which is essential for the role. I have not seen a better interpreter since Massine himself. A welcome, too, for Tamara Rojo, a guest from the Victor Ullate Ballet. She is lovely, she plays with tremendous charm and not a little wit, and the role lives as I have not seen it since Violetta Elvin brought it to life in the late 1940s. From the Nice dancers, in both these Massine works, a strong sense of ensemble, and the sort of lively playing that is needed if the old repertory is to survive: there is nothing jaded or predictable here.

For the *Cuadro Flamenco*, Cartier has adopted Diaghilev's manner with the original staging, as well as the Picasso design. In 1921, Diaghilev had to fill out his programmes for Paris and London, and decided to show a troupe of Flamenco dancers as a very "different" novelty. In Seville he saw, and recruited, a ravishingly beautiful girl, to whom he gave the stage name Maria Dalbiacin, and told his manager to gather a group of gypsy dancers around her. Unpredictable, and including one street beggar without legs and a dwarf, they gave his manager hell. Anguished telegrams to Diaghilev include the words "Ramirez has lost his wits" – "nasty disposition" – "they all repeat all dotty". But arrive they did, and they appeared in a setting by Picasso which showed the interior of a little theatre, with boxes on either side occupied by a couple of Spanish beauties.

This decor Cartier has had brilliantly re-created, and has invited Cristina Hoyos to bring her troupe to dance in it, with their own versions of the dances that were originally shown by Diaghilev. The result is splendid in every way. The set is charming, red and gold and lovingly conceived by Picasso as a view of a small stage: he painted some of the original by hand. The dances sit splendidly within it – how good to see Flamenco in a more ordered frame – and Mme Hoyos (on blazing form at the first performance on Friday) and her dancers provide a disciplined but far from predictable display. The gamble of reviving this long-lost set, and restoring its theatrical life, has been handsomely won. A final salute for the orchestral playing in *Tricorne* and *Parade*: Bruno Ferrandis drew admirable interpretations from the Nice Philharmonic. Mme Hoyos' musicians and singers were tremendous.

This programme will tour in Portugal and Spain during the next month.

Pop/Antony Thorncroft

Van the Man

Van Morrison, OBE – no, not OBEse Balding Eccentric: Ulster's greatest gift to world music has been honoured by the Queen with the Order of the British Empire. Significantly, she was not acting on personal whim. Van Morrison will collect his gong because he is the people's choice – his fans petitioned in his favour by the sackload.

They were in a surprisingly reverential mood when he appeared at Wembley Arena on Saturday night. Perhaps they could not see him. Surrounded by a dozen musicians, the spotlight refused to shine on the tubby man shrouded in black. As a less than mesmeric mover he likes it that way. You had to fasten on the voice – that great, deeply honed mix of Guinness and honey – to catch the Man.

He seemed happy, one of the crowd, with no obvious angst from the recent break up of his romantic attachment, although the one new song "Here I am again, back on the corner again", suggested he carried some scars. For the rest he cruised through an hour long set of old bluesy favourites, bolstered by a boisterous brass section and Georgie Fame, coolly, on keyboards.

There was little Celtic mysticism on show; much bar room merriment. He even finished with "Moondance". "We are trying to bring a small, intimate, situation to a big arena" he explained, which means that the band joked a lot among themselves and the audience did their best to join in.

It was an oddly detached performance, with none of that tortured gut-renching that his fans love, but a genial, dashed-off turn by an old pro. He even sacrificed to the Gods of Pop with a heartfelt version of James Brown's "Its a man's world".

Morrison is hooked on rock history. He shared Wembley, totally unnecessarily, with an icon as old as Brown, Ray Charles, who answers to the age of 65. For a long time it was a disaster. It took ages for Charles's crew to set up, and then we were treated to an old fashioned band show, with tiered musicians and a tedious girl vocalist.

Finally, smiling fit to bust, the blind trouper was led to his keyboard stool, and the evening *suddenly* took off. Charles still delivers. It was all the old favourites, from "Georgia" to "Busted", but the voice is as earthy and droll as ever, and he shakes his body like an electric marionette.

Touring with this cheerful old ham may explain why Van Morrison has discovered fun. But you can have too much entertainment and when, at approaching midnight, Ray called the chorus girls on stage, it was time to leave the old un's to it.

At Wembley Arena tomorrow, then to Manchester (Fri), Birmingham (Sun), and Newcastle (Mon).

INTERNATIONAL ARTS GUIDE

BERLIN

EXHIBITION
Bröhan-Museum
Tel: 49-30-3214029
● Wasserwelten. Das Motiv des Wassers in der Kunst des Jugendstils: exhibition devoted to water as a source of inspiration for the artists of the Art Nouveau movement. The display includes paintings, porcelain, and works in *metal and glass; to Sep 15*
OPERA
Staatsoper unter den Linden
Tel: 49-30-2082861
● Staatsoper unter den Linden: with conductor Antonio Pappano perform Mascagni's Cavalleria Rusticana and Leoncavallo's I Pagliacci. Soloists include Plowright, Pasw, Kammerloher and Botha; 7pm; Jun 19, 21

COPENHAGEN

CONCERT
Tivoli Concert Hall
Tel: 45-33 15 10 01
● Tivolis Symfoniorkester: with conductor Walter Weller and bass Thomas Quasthoff perform works by Mahler and Beethoven; 7.30pm; Jun 20

DRESDEN

EXHIBITION
Albertinum Tel: 49-351-4953056
● Theodor Rosenhauer zum 95 Geburtstag: exhibition on the occasion of the 95th birthday of the German landscape and portrait painter Theodor Rosenhauer. The display includes some 30 works, 12 of which come from the private collection of the artist; to Jun 19

EDINBURGH

EXHIBITION
National Gallery of Scotland
Tel: 44-131-5568921
● Awash in Colour: Great American Watercolours from the Museum of Fine Arts, Boston: this exhibition presents a collection of over 50 watercolours from the museum. The display includes works by Winslow Homer, Edward Hopper and John Singer Sargent; to Jul 14
OPERA
Edinburgh Festival Theatre
Tel: 44-131-5296000
● La Traviata: by Verdi. Conducted by Stephen Clarke and performed by the Scottish Opera. Soloists include Clare Rutter, Richard Coxon, Jonathan Summers and Helen Lothian; 7.15pm; Jun 19, 21

LEIPZIG

CONCERT
Gewandhaus zu Leipzig
Tel: 49-341-12700
● Das Paradies und die Peri: by R. Schumann. Performed by the Gewandhausorchester and the Gewandhauschöre with conductor John Nelson. Soloists include S. Isokoski, A. Vogel, B. Fink, H.P. Blochwitz, M. Krumbiegel and P. Lika; 8pm; Jun 20, 21

LONDON

CONCERT
Purcell Room Tel: 44-171-9604242
● Jane Manning and Sybil Michelow: performance by the soprano and mezzo-soprano, accompanied by pianist Miriam Brickman, flutist Philippa Davies, viola-player Rivka Solani and baritone Simon Vaughan. The programme includes works by Gershwin and Senator; 7.30pm; Jun 20
DANCE
Royal Festival Hall
Tel: 44-171-9604242
● Cinderella: a choreography by Michael Corder to music by Prokofiev, performed by the English National Ballet; 7.30pm; Jun 19, 20, 21, 22 (also 2.30pm)
EXHIBITION
Queens Gallery
Tel: 44-171-9304832
● Leonardo da Vinci: One Hundred Drawings from the Collection of Her Majesty The Queen: this exhibition includes preparatory sketches for paintings such as the 'Adoration of the Magi' and the 'Last Supper', designs for equestrian monuments, war machines and costumes for court entertainment; to Jan 12
OPERA
London Coliseum
Tel: 44-171-8360111
● La Bohème: by Puccini. Conducted by Alex Ingram and performed by the English National Opera. Soloists include Anne Williams-King, John Hudson and Roberto Salvatori; 7.30pm; Jun 20
THEATRE
Barbican Theatre
Tel: 44-171-6388891
● Richard III: by Shakespeare. Directed by Steven Pimlott and performed by the Royal Shakespeare Company. The cast includes David Troughton; 7.15pm; Jun 20, 21, 22

LYON

CONCERT
Auditorium Tel: 33-78 95 95 95
● L'Histoire du Soldat: by Stravinsky. Performed by the Orchestre National de Lyon with conductor Gérard Lefebvre and narrator Moshe Leiser; 2.30pm; Jun 19

MADRID

EXHIBITION
Fundación Collección Thyssen-Bornemisza
Tel: 34-1-4203944
● From Canaletto to Kandinsky: Masterpieces from the Carmen Thyssen-Bornemisza Collection: this exhibition features a selection of about 90 works from the Baroness's private collection; to Sep 8

NEW YORK

CONCERT
Avery Fisher Hall
Tel: 1-212-875-5030
● Tony Bennett: benefit concert for the Babies & Children's Hospital; 8pm; Jun 19
Carnegie Hall Tel: 1-212-247-7800
● Louisiana Purchase: a full-length concert version of this musical by Irving Berlin, performed by The Carnegie Hall Theatre Orchestra led by Rob Fisher. Soloists include Judy Blazer, Taina Elg, Debby Shapiro Gravitte, George S. Irving and Michael McGrath; Wed 7pm, Thu - Sun 8pm, Sun also 3pm; from Jun 19 to Jun 23
EXHIBITION
Whitney Museum of American Art
Tel: 1-212-570-3600
● An American Story: a chronological survey of the museum's permanent collection of 20th-century American art. Divided into 15 categories and incorporating more than 200 paintings, sculptures, prints, drawings and photographs, the exhibition provides an extensive overview of the art of this century; to Oct 6

PARIS

CONCERT
Maison de Radio France
Tel: 33-1 42 30 22 22
● Orchestre Philharmonique de Radio France: with conductor Marek Janowski and pianist Pierre-Laurent Aimard perform Henze's Symphony No.8, Takemitsu's Requiem for Strings and Schoenberg's Piano Concerto; 8pm; Jun 20
DANCE
Théâtre National de l'Opéra - Opéra Garnier
Tel: 33-1 42 66 50 22
● Ecole de Danse Opéra National de Paris: perform Balanchine's Western Symphony to music by Kay and Lifar's Le Chevalier et la Demoiselle to music by Gaubert; 7.30pm; Jun 19, 20, 21, 22
EXHIBITION
Musée du Petit Palais
Tel: 33-1 42 65 12 73
● Albrecht Dürer. Oeuvre gravé: exhibition of woodcuts and engravings by Albrecht Dürer (1471-1528) from the museum's collection; to Jul 21
FESTIVAL
Festival de Musique Française - Musique en Sorbonne
Tel: 33-1 42 62 71 71
● Festival de Musique en Sorbonne: annual classical music festival taking place at the Sorbonne University in Paris. This year the festival is devoted to the Spanish composer Manuel de Falla, on the occasion of his death 50 years ago; *to Jun 25*
OPERA
Théâtre de l'Opéra Comique
Tel: 33-1 42 44 45 46
● Carmen: by Bizet. Conducted by Lawrence Foster and performed by the Opéra Comique. Soloists include Katarina Karneus and Luca Lombardo; 7.30pm; Jun 19, 21

VIENNA

OPERA
Wiener Staatsoper
Tel: 43-1-514442960
● Don Carlos: by Verdi. Conducted by Fabio Luisi and performed by the Wiener Staatsoper. Soloists include *Andrea Gruber*, Nina Terentjewa, Samuel Ramey and Luis Lima; 6.30pm; Jun 19, 22

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(Central European Time)

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FT Business Morning

10.00
European Money Wheel
Nonstop live coverage until 15.00 of European business and the financial markets

17.30
Financial Times Business Tonight

CNBC:

08.30
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

And so to Lebed

Yeltsin needs the general's help to build on his first-round election win, says Chrystia Freeland

Three front-runners: from left, Boris Yeltsin, Alexander Lebed and Gennady Zyuganov

Like General Kutuzov, the fat, slow-witted warrior credited by Tolstoy with defeating Napoleon's armies because "he was one with the Russian people", Russian President Boris Yeltsin has once again shown that he has the best political instincts in the country.

Elsewhere, there would be nothing spectacular about an incumbent candidate who, with all the machinery of the state working in his favour, managed to beat his nearest opponent by less than three percentage points and was forced to meet him again in a second round of voting. But in Russia, which has lost half of its economy and most of its empire under Mr Yeltsin's stewardship, the president's narrow lead over Mr Gennady Zyuganov, his communist rival, in Sunday's ballot is a remarkable political comeback.

When the election date was set at the beginning of this year, some of Mr Yeltsin's closest political allies publicly warned that Mr Zyuganov was unbeatable. After five years of turbulent political and economic change, which had lowered incomes and shortened life expectancy, opinion polls showed that Russians, like their eastern European neighbours, were ready to swing back to the communists. Most surveys put Mr Zyuganov far ahead of the president.

Yet Mr Yeltsin – a hard-living, 65-year-old grandfather who suffered two heart attacks last year – has danced, joked and flag-waved his way back into the hearts of millions of Russians with a frenetic round of campaigning over the past four months. It has included everything from doing the twist with mini-skirted teenagers to presiding over a military parade from the solemn perch of Lenin's mausoleum.

But Mr Yeltsin has not yet campaigned himself on to the pages of some fledgling Tolstoy. His slight edge is a significant achievement, but he has not yet won the war.

Observers ranging from the US ambassador to Russian and western investors – who pushed share prices up yesterday – are betting that Mr Yeltsin's margin on Sunday will translate into a clear triumph against Mr Zyuganov in a second round of voting in the next three weeks. But some Yeltsin aides have warned that the president cannot afford to rest on his laurels.

"It would be wrong to limit ourselves to victory reports," Mr Yuri Baturin, the president's adviser on national security, warned yesterday. "There have also been setbacks."

One of the greatest dangers, Mr Baturin and other members of the campaign team say, is that the president risks becoming a victim of his own success. Over the past few weeks, Mr Yeltsin's political blitzkrieg has left no corner of Russian life untouched. The campaign has reached from the chandeliered reception rooms of the Kremlin, where waiters are under orders not to offer vodka to the president, to the nation's airwaves, which are so dominated by Mr Yeltsin that even football commentators implicitly plug the president in lulls between goals.

Presidential staffers fear many of the country's 105m voters will be so exhausted by the saturation coverage of Mr Yeltsin that they may not show up at the polls for the second round.

"Many of Yeltsin's supporters begin to reason along the following lines: 'Boris Nikolayevich will win as it is and for this reason there is hardly any need to go and vote'," warns Mr Baturin.

The president's men are taking voter fatigue so seriously that they are trying to move the second round vote to the middle of the week from the traditional Sunday.

Mr Yeltsin's strongest chance of holding the attention of Russia's weary voters, and regaining the momentum he had built up earlier this month, would be to seal a bold strategic alliance with the new man of the hour, Mr Alexander Lebed, the retired general who won third place and a powerful new role as kingmaker in Sunday's voting.

Mr Lebed, a moderate nationalist who has pulled away many votes from Mr Vladimir Zhirinovsky, the flamboyant xenophobe of Russian politics, has been firmly anti-establishment on the campaign trail. He has railed against "the bandits" who rule the country, and argued that Mr Yeltsin and Mr Zyuganov represent two faces of the old, unloved communist *nomenklatura*.

But Mr Lebed's open lust for power – he told television viewers on Sunday night that he was destined to rule Russia – could make him open to the offer many of Mr Yeltsin's senior allies are urging the Kremlin leader to extend: Mr Lebed met Mr Yeltsin yesterday, and leading pro-Yeltsin officials, including Mr Victor Chernomyrdin, the prime minister, have hinted that an important post could be reserved for him in a new Yeltsin government.

The problem for Mr Yeltsin is that some members of his entourage, especially businessmen, might oppose the adoption of Mr Lebed: as an outsider with a reputation for getting things done, Mr Lebed might actually act on his campaign pledge to root out government corruption.

"Now comes the tricky time for Yeltsin. He has to reach out and show the contours of his new government and make a deal with Lebed, but the big question is: will his camarilla [clique] allow it?" says Mr Peter Schulze, Moscow director of the Friedrich Ebert Foundation, the German think-tank.

At a time when Russia is deservedly celebrating its first democratic vote for a national leader, such fears serve as a reminder that even if Mr Yeltsin is re-elected in the second round, his triumph will hardly be a victory for the western-style political and economic freedoms he seemed to promise when Russians first selected him as their leader in 1991.

Instead, as the US diplomat Thomas Graham observed last autumn in a much talked about article on Russia, a Yeltsin win would be a triumph for the occasionally fractious but ultimately allied Kremlin clans which rule Russia today. To keep the peace between these powerful insiders Mr Yeltsin will need to remain as wily as Gen Kutuzov, even after the vote.

·LETTERS TO THE EDITOR·

Number One Southwark Bridge, London SE1 9HL

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Eurosceptic's 'calculation' based on a nonsensical piece of arithmetic

From Mr Derek Prag MEP.

Sir, Philip Stephens in his as usual – percipient article, "Put it to the vote" (June 14), said that the Eurosceptics' crystallisation of the Europe debate into one of "In" or "Out" would cause them "to produce all sorts of spurious statistics and assumptions . . ."

They have, of course, been doing this for some time. Their allegation that what Britain originally joined was only a free trade area is just one of the most glaring examples of their factual errors.

There was another example in the same issue of the FT: Prof Minford's "calculation" that "net UK contributions to the Common Agricultural Policy and inflated food prices cost about £10bn a year". What a nonsensical piece of arithmetic! The net contribution to the CAP is of a different genus from the level of food prices. In the first place, the net contribution can be calculated with reasonable accuracy: the CBI, among others, has done so and given us the figure of £2.1bn for our *total* net contribution last year – not just for agriculture but for everything.

As for food prices, Prof Minford ought to know very well that a credible calculation of what food prices would have been if we had had genuine free markets for food in Europe and elsewhere is impossible, given the large-scale intervention in agricultural policy by governments in all industrial countries. Calculations based on prices on small residual free markets – the so-called "world markets" – are meaningless.

Doubtless, as Philip Stephens says, we shall be getting much more of the same (some of it, from people who ought to know better). Is it because they have such a poor case that the Eurosceptics put forward such outrageous nonsense?

Derek Prag,
chairman,
London Europe Society,
Pine Hill,
47 New Road,
Digswell,Welwyn,
Hertfordshire AL8 0AQ, UK

Facts of life still painful experience

From Mr Niall FitzGerald.

Sir, On June 10, you published three letters in response to my article on why EU membership is vital to this country. I am delighted I have provoked further discussion on such a crucial issue.

I wrote the article from the head as well as the heart. As the vice-chairman of a multinational company employing 22,000 people in the UK, I know our membership of the EU is fundamental to our future economic success. As chairman of the Confederation of British Industry's Europe committee, I also know the business community strongly agrees with me. CBI policy is subjected to rigorous consultation within the membership, across all types and sizes of firm, in every region. If they didn't think it, I wouldn't have said it.

I was not indulging in Eurospeak, nor am I even remotely anxious to join a gravy train of any description. All I was doing was pointing out the facts of life. Apparently, there are some people for whom this is still a painful experience.

Niall FitzGerald,
vice-chairman,
Unilever,
Unilever House,
Blackfriars,
London EC4P 4BQ, UK

The real debt relief agony is suffered by the poorest countries, not World Bank

From Prof Sir Hans Singer

Sir, Robert Chote's article "World Bank agonises over debt relief" (June 10) raises some interesting issues, but also some serious doubts.

In the first place, one may question the whole approach of providing a package of burden-sharing between bilateral and commercial creditors on the one hand and the multilateral creditors (World Bank and the International Monetary Fund) on the other hand.

The present subject under debate is multilateral debt relief. A good deal of recent bilateral aid has *de facto* served to enable countries to service their multilatеral debts – a House of Commons committee has already expressed serious concern at this situation.

This does not mean that raising the Naples terms from 67 per cent to 80 per cent, or even to the 90 per cent suggested by the World Bank and IMF, would not be a good thing.

Leaving this aside, one can also question the tying of the total debt relief package to the growth rate of export earnings of poor debtor countries.

What seems relevant is not the rate of increase in export earnings, which is under dispute between the World Bank and IMF, but the ratio of export earnings to the unit cost of imports – in other words, the purchasing power of exports or income terms of trade.

It also seems highly optimistic to assume that total debts up to 200 per cent of exports are acceptable. If we assume a debt service ratio (interest and amortisation) of 10 per cent, this would mean that 20 per cent of export earnings are pre-empted for debt servicing, and thus not available for financing urgently-needed imports.

Finally, one must also question the contention that a use of proceeds from sale of a modest portion of IMF gold or of the ample World Bank reserves would endanger the triple A credit rating of these two institutions. This depends on the full support and guarantees from the big financial powers rather than their stock of gold or their balance sheet. It is to be hoped that the coming G7 summit in Paris will constructively deal with these problems.

The real agony is not that of the World Bank, as the article's title suggests, but rather that of the poorest debtor countries.

Hans Singer,
Institute of Development Studies,
University of Sussex,
Brighton, BN1 9RE, UK

Hospitals and private finance

From Ms Janet Salmon.

Sir, The Private Finance Initiative will not work in the UK National Health Service because it attacks the core of a free, publicly funded service based on medical need and not one's ability to pay. The government has cut £400m of capital spending on hospitals, but the PFI is so complex that, while millions of pounds have been spent on submitting bids, no new hospital contract has been signed.

The Labour party is sitting on the fence as usual. While Harriet Harman, shadow health secretary, states she would "discourage the signing of such contracts", because it ties the hands of future governments. Gordon Brown, the shadow chancellor, is making no commitments on funding new hospitals until he has seen the books. Neither the taxpayer nor the local community is consulted on whether they want their local hospital rebuilt with private finance. Both are unaware of the potential ramifications on access to services and waiting times for operations.

The government demands that health authorities should explore the use of private finance before public funds can be considered. The result of this policy is decaying hospitals, increased bureaucracy and increased interest charges to borrow money as a private rather than a public organisation.

Janet Salmon,
43 Montague Road,
Richmond,
Surrey TW10 6QJ, UK

Modification by gender

From Ms Victoria Andrews.

Sir, You described Ms Sheila Masters as "arguably Britain's leading woman accountant" (June 15/16). The description should not be modified by gender since it is not gender which determines an accountant's ability. If the description is to be qualified, a field of professional interest would be appropriate.

Victoria Andrews,
12 Gayton Road,
London NW3 1TX, UK

Interview • Peter Drucker

An iconoclast with ideas

The management theorist speaks to Richard Donkin

Peter Drucker: doyen of modern management theory

Peter Drucker has reached the stage of life where he has the time to re-read books. He is now reading Jane Austen and William Thackeray, and finds Austen's economy and elegance with words instructive for his own writing. "It's a very good antidote to modern sloppiness and language corruption," he says.

The dissemination of complex ideas in simple prose is a lifelong passion for Drucker, the Viennese-born writer, who has already secured his niche in business history as the father of post-war management thinking.

Drucker himself rejects the "guru" label. With more than 20 management books to his name and an early career in newspapers, he prefers to be known as a journalist and writer.

For many business leaders across the world, however, he remains the doyen of modern management theory, not so much because he can lay claim to being the founder of any particular concept – such as "business re-engineering" or "total quality management" – but because he has demonstrated a rare ability to apply common sense to the analysis of management challenges and their solutions.

Today, at the age of 87, he is still writing, still teaching and still thinking.

He believes the medium-sized company is going to inherit the earth and that the corporate giants are "doomed to extinction". Drucker also thinks managers still have much to learn, often in fairly basic skills. "The one thing that most managements are least proficient in is the management of currency," he says. "Most management people I know still believe that the Bible begins with the words: 'In the beginning God created stable exchange rates'."

He is openly scornful of those who have rewarded themselves for executing downsizing operations with salary rises, bonuses and stock options. "This is bluntly immoral," he says. "There's an old saying among surgeons that the worst surgeon is the one who amputates before making the diagnosis and that's what downsizing, in most cases, has been."

But Drucker has always been far more than a management writer and consultant. He draws on subjects as diverse as Japanese art, English literature, medicine and taxonomy. An admirer said he was "one of the last encyclopaedics".

Drucker's seminal work, *The Practice of Management*, published in 1954, distilled many influential ideas on a broad range of topics, including the role of marketing and the importance of clear corporate and management objectives. It also stressed the need for a short chain of command, predating the much later trend towards flatter hierarchies by more than 25 years.

In this and a later book, *Tasks, Responsibilities, Practices*, published in 1973, Drucker laid down five basic tasks for the manager, whom he described as "the dynamic, life-giving element in every business": to set objectives, to organise, to motivate and communicate, to measure and to develop people.

The management books cemented a reputation that had already been established in his 1946 study of the workings of General Motors, *Concept of the Corporation*, the first detailed analysis of a company's operations.

He later concentrated on such qualities as innovation, entrepreneurship and the growth of the "knowledge worker", but he remains primarily associated with a rationalist view of management and organisations.

Although a naturalised American, his accent and his approach to work remain heavily influenced by his upbringing in the austere atmosphere of Austria between the wars. Drucker's father was at one time the chief economist in the Austrian civil service.

In spite of his professorships in the US – he was professor of philosophy and politics at Bennington College, New England, from 1948 to 1952, then professor of management at the Graduate School of Business, New York University, and now professor of social sciences at Claremont Graduate School in California – he still insists that he is "not academically respectable".

This is partly because he refuses to play by the rules of academia. For example, he scorns footnotes which are virtually a prerequisite for US academic publishing. "I have no use for footnotes. One uses footnotes only as a cross reference and if one uses somebody else's thoughts, otherwise footnotes are a pedantic game. Only now in my very old age has academia been willing to accept me," he says.

Even in his work, for the governments of the US, Canada and Japan, he says he remained an outsider. "I have always been politically incorrect. I have never belonged to the outer circle, let alone the inner circle. No, I am an outsider and I am a loner. I have always done my own work."

This is the way that Drucker prefers to see himself. He titled his autobiography *Adventures of a Bystander*. Today, working much of his time from his home in Claremont, which he shares with his wife, Doris, he continues to display an iconoclasm undiminished by his years – and to harness his intellect to a belief in hard work that has enabled him to write prolifically throughout his life.

His approach, he admits, may be considered old-fashioned. But he can live with that. He says: "I was old fashioned all my life."

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Number One Southwark Bridge, London SE1 9HL
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700

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No euphoria over Russia

Perhaps the best thing about the first round of Russia's presidential election is the mere fact that it happened. After weeks of recrimination, with the contenders accusing one another of contemplating fraud on a massive scale, the voting and counting procedures have been acknowledged by all sides as broadly fair.

While President Boris Yeltsin undoubtedly made ruthless use of the advantages of incumbency, and his domination of the airwaves, it has to be recognised that the selection of Russia's next head of state was a matter of open and vigorous contest.

As for the result, here again things could have been a great deal worse. Mr Gennady Zyuganov, the neo-communist who defends Stalin's record and trades openly on nostalgia for the Soviet regime, failed to top the poll, as seemed very likely until a few weeks ago. Mr Vladimir Zhirinovsky, the ultranationalist rabble-rouser, fared worse than expected, and has been denied the chance to act as king-maker.

Mr Yeltsin, who in western eyes represents the hope but not the certainty of continued reform, has a good chance of building on his 35 per cent score to win the second round. But he will have to work hard for his victory, and compromise with some of his rivals. That too seems a just verdict on a man who has launched Russia on the road to liberal capitalism but must also take the blame for unleashing the war in Chechnya.

But while the worst has been avoided, western governments should certainly not be carried away by euphoria. Despite the personal rivalry between the leading candidates, there is a degree of convergence in their attitude to the US and western Europe. It is a brand of nationalism that lies somewhere between the relentless enmity of the cold war and the pro-western euphoria that followed the Soviet collapse. While both Mr Yeltsin (in practice) and Mr Zyuganov (at least in theory) acknowledge the merits of doing business with the west, they are both inclined to view Russian-western relations – particularly in the field of European security – as an adversarial, zero-sum game.

The emergence in a pivotal role of General Alexander Lebed, who spent his formative years fighting US-backed rebels in Afghanistan, is unlikely to make the policy of Russia's next administration any more pro-western. And the poor performance of Mr Grigory Yavlinsky, the only candidate who has consistently supported reform, is a reminder of how much the liberal segment of the electorate has retreated.

All this suggests that whatever coalition emerges from the deal-broking that will take place over the coming days – and a Yeltsin-Lebed tandem now seems the most likely – Russia will continue to need careful handling.

The first challenge facing the West is whether or not to admit Russia as a full member of the Group of Seven industrialised nations. Mr Yeltsin already attends the Group's discussions on political issues, but not the G7 economic summits. Given the fragile state of Russia's economy, it would be premature to offer full G7 membership now. It would also be naive to expect that Russia, whoever its president, would show goodwill in return. The Russia that emerges from these elections is going to be a more prickly, nationalistic partner, whoever wins the second round.

Performance pay

The prospect of pay increases of 30 per cent for backbench MPs and of still more for government ministers is being met with smug anticipation in the UK House of Commons. The Top Salaries Review Board, which met yesterday to finalise its proposals, is expected to recommend the awards before the end of the month. The MPs, uniquely authorised to decide their own pay, will then vote on the package before leaving Westminster for their leisurely, three-month summer break.

Even before the precise figures are announced, MPs are carefully rehearsing their self-justificatory arguments. By international standards, their basic pay of £34,000 a year is low. At home, it has fallen behind that of comparable professions. Politics needs to attract talent. The recommendations of the board represent an independent judgment. And so on.

Needless to say, there is no mention of the fact that many MPs treat Westminster as a part-time career, combining it with lucrative posts in law or banking or with clutches of company directorships. Nor apparently do they see a contradiction in obliging other public sector workers to finance even small pay awards from productivity gains (usually job losses) and attaching no strings to their own, much larger increases.

There is a case for paying MPs more but only if their remuneration is tied closely to performance. Those who insist on pursuing outside careers should not expect extra subsidies from the taxpayer. Those willing to play an active role in parliament should be rewarded accordingly. There is one more thing. Any award should be self-financing, paid for by cutting the numbers of MPs and ministers alike. Even at present pay rates too many of them are expensively under-employed.

Buying loyalty

J. Sainsbury's decision to launch a nationwide loyalty card means all the big British supermarket chains are either offering such cards or experimenting with them. The trend has important lessons for all those involved in consumer goods marketing.

Sainsbury has been pushed in this direction, obviously reluctantly, by the astonishing commercial success of Tesco's Clubcard, which helped push up market share by 1.6 percentage points in the past year.

In one sense, these cards are no more than a form of genteel discounting, a more sophisticated version of the Green Shield stamps of the 1960s.

Compared with straightforward price competition they offer some advantages, not least by making it harder for customers to compare rivals' net prices directly. But they are still expensive: Sainsbury reckons it will have to raise turnover by 3 per cent to break even on its new loyalty scheme, a figure which it may struggle to achieve now that such promotions are general.

But the real potential of the loyalty cards is the opportunity they offer to move the supermarket chains decisively towards relationship marketing, the Holy Grail in consumer goods circles. Because customers must present their cards each time they shop, the supermarket chains are able to capture huge amounts of data about what and how often their customers buy.

In principle, this allows the chains to tailor promotions accurately to the customers most likely to be receptive to them, getting them off the treadmill of inefficient and expensive coupon promotion. It holds out the prospect of easy diversification into other business activities, especially services – as Tesco's nascent bank account demonstrates.

The customer data banks, if properly exploited, also become a weapon in the information war between supplier and retailer. Big manufacturers of fast-moving consumer goods have been attempting to cut out the middle man – at least in information terms – by building huge customer databases, and promoting directly to shoppers through the mail. Heinz has been particularly aggressive, shifting its marketing spending sharply in this direction.

The jury is still out, however, on just how effective the manufacturers' relationship marketing efforts will be. Retailer loyalty schemes may well offset any advantage that the manufacturers might gain, not least by giving supermarket own brands the same sort of support. The success of the own brands owes a great deal, after all, to the strength of the supermarkets' existing relationships with their customers, a firm foundation on which loyalty schemes can build.

The supermarkets now set a benchmark that marketers in all consumer industries must meet. The challenge is threefold: to establish the same strength of brand relationship that the supermarkets have achieved; to derive useable information from that relationship; and then to turn it to lasting commercial advantage, both in the core business and outside.

The supermarkets have leapt up the first two steps of this ladder. They are working hard on the third. Other businesses will need to follow suit. After all, as Tesco has shown, loyalty schemes increase the rewards for being big – and quick.

Thinking the unthinkable

As more voices are raised in support of UK withdrawal from the European Union, **Martin Wolf** considers the price of membership

The unthinkable is being thought. It is not just being thought, but being thought out loud. Would it be so dreadful for the UK to leave the European Union? The people of Bristol would not ask themselves whether the advantages of staying in England outweigh the disadvantages. They define themselves as English. At some point the people of the UK may similarly identify themselves as Europeans first and British second. That time is certainly not now. They can still ask of the EU the question Scots are asking of the UK: what is in it for us?

The question can be answered only with difficulty, for three reasons. First, economists are unable to quantify with precision the economic effects of membership. Second, many of the potential effects lie in the future. Third, the benefits of staying in can only be assessed against the costs of being outside. But the latter depend on the accommodation that could be reached between a departing UK and the rest of the EU.

Nevertheless, one point can be made with confidence. The most dynamic region – east Asia – contains no economically significant preferential trading arrangements. Free-trading Hong Kong's real income per head in 1994 has been estimated by the World Bank at $23,100, above that of any member of the EU, except tiny Luxembourg. Privileged access to a large market is, in short, not the prime determinant of an economy's success.

That is determined, instead, by protection of property rights, quality of education, flexibility of markets, thrift, entrepreneurship, openness to trade and levels of taxation. Membership of the EU can have decisively altered the UK's prosperity only if it had an impact on one of these. Since the economy has grown at an average annual rate of less than 2 per cent since 1973, there is hardly much to explain.

How might the EU have made an impact? The starting point for serious analysis of the net economic benefits of EU membership is an appreciation of what it is: a trading bloc that has combined liberalisation with discrimination.

To the extent that it has liberalised trade it should increase competition and so promote growth. To the extent that it discriminates against outsiders, it will reduce competition and growth. The latter can have damaging long-run effects. UK membership of the EU followed upon imperial, later commonwealth, preference. Privileged access to these undemanding and relatively undynamic markets damaged the global competitiveness of British businesses. Meeting global competition is painful; refusal to do so suicidal.

The broad distinction between the liberalising and discriminatory aspects of a trade bloc has a counterpart in the distinction between trade creation and trade diversion. Trade creation occurs when, for example, cheaper German products replaces costlier UK ones. Trade diversion occurs when more expensive German products replace cheaper Japanese ones.

Although these concepts measure only static gains and losses, they are at least a useful starting point. Thus, a country such as the UK gains from its own trade creation – though it can achieve the same benefit by liberalising unilaterally. It normally gains in the short term from trade diversion by its partners in its favour. It also gains from its partners' trade creating liberalisation if it is the world's most competitive supplier. It loses, however, when it must substitute high-priced imports from its partners for cheaper imports from elsewhere.

A study of the costs of EU membership from the Campaign for an Independent Britain points with alarm to the deterioration of the UK's trade balance with the EU in manufactures, from a surplus of £385m in 1970 to a deficit of £8.5bn in 1990.* This is economically illiterate: it treats a bilateral trade balance as a measure of the benefits of trade; and it ignores the possibility that the increased imports from the rest of the EU were economically beneficial.

These authors could be right, however, if the rising imports from the EU represented trade diversion – in other words were at the expense of cheaper imports from elsewhere. For this reason, it is wrong to jump from the growing propensity to trade with the rest of the EU to the conclusion that this trade must be mutually enriching. The question is whether it represented costly trade diversion or beneficial trade creation.

One way of answering is to see whether the rising imports from the EU displaced domestic output or imports from elsewhere. The ratio of imports from the rest of the world to UK gross domestic product has oscillated, partly because of the fluctuating price of oil. But, at 10.7 per cent in 1995, it is close to the average between 1972 and 1973. Meanwhile, the ratio of imports from the EU has tended to rise, from 9 per cent in 1973 to around 13 per cent. This suggests there has been trade creation, with imports from the EU displacing domestic output.

In his recent analysis of the balance of advantage of UK membership of the EU, Professor Patrick Minford of Liverpool University focuses attention on the two areas where trade diversion is most likely to be significant.** These are agriculture, where the replacement by EU produce of cheap imports from countries such as New Zealand works against UK interests; and foreign direct investment into the UK, partly inspired by the desire to avoid EU trade barriers, which works in its favour.

Prof Minford calculates the net cost of the common agricultural policy by taking the cost to consumers of paying higher prices from food, subtracting the gain to UK farmers and then adding the loss in real income that results from the reduced consumption of food. At today's prices, he estimates the net cost of the common agricultural policy at £6.5bn for a "typical year", a calculation that assumes it raises the price of food some 40 per cent above world levels. This year, however, the surge in world prices has virtually eliminated this cost.

To the cost of the common agricultural policy, Prof Minford adds the net cost to the UK of its contributions to the EU budget, which is £3.4bn in 1995-96, though it was less in previous years and could be much less in the near future. The assumption that the UK's net contribution has been largely due to the cost of administering the common agricultural policy is not unreasonable. This produces an aggregate cost of £10bn, or 1½ per cent of GDP.

On the other side of the ledger is trade diversion in the UK's favour. Prof Minford's argument is that prices of consumer durables – particularly cars – are about 30 per cent higher in the EU than they could be under fully free trade. This will allow a low-cost country like the UK to serve as a base for producers from outside the EU. The cost of this inducement to inward investment will then be borne by consumers in the rest of the EU.

According to Prof Minford, this process of production and trade diversion will be allowed to continue only so long as exports from the UK displace imports from outside the EU. If they begin to hit production elsewhere in the EU, there will be a backlash. Up to that point, however, the UK could benefit to the tune of £9bn a year. To the rest of the EU, this will not be an additional cost, he argues, since it will merely transfer to the UK excess returns previously enjoyed by exporters from elsewhere.

He concludes that the loss on agriculture more or less equals the gain on foreign direct investment. I suspect he exaggerates both effects. But this depends on whether his £9bn a year assesses the economic benefits captured by the UK from inward foreign direct investment, something nobody knows.

The EU is, however, far more than just a trade arrangement. Prof Minford ignores the single market altogether but focuses on two other aspects: economic and monetary union (Emu) and EU social policy. Both, he argues, could be a disaster for the UK if it were to sign up.

The decision to ignore the single market may make sense. The UK was already relatively liberal in many areas covered by this programme. The additional market access has not been that large. The single market may create great new opportunities. It does not appear to have done so yet.

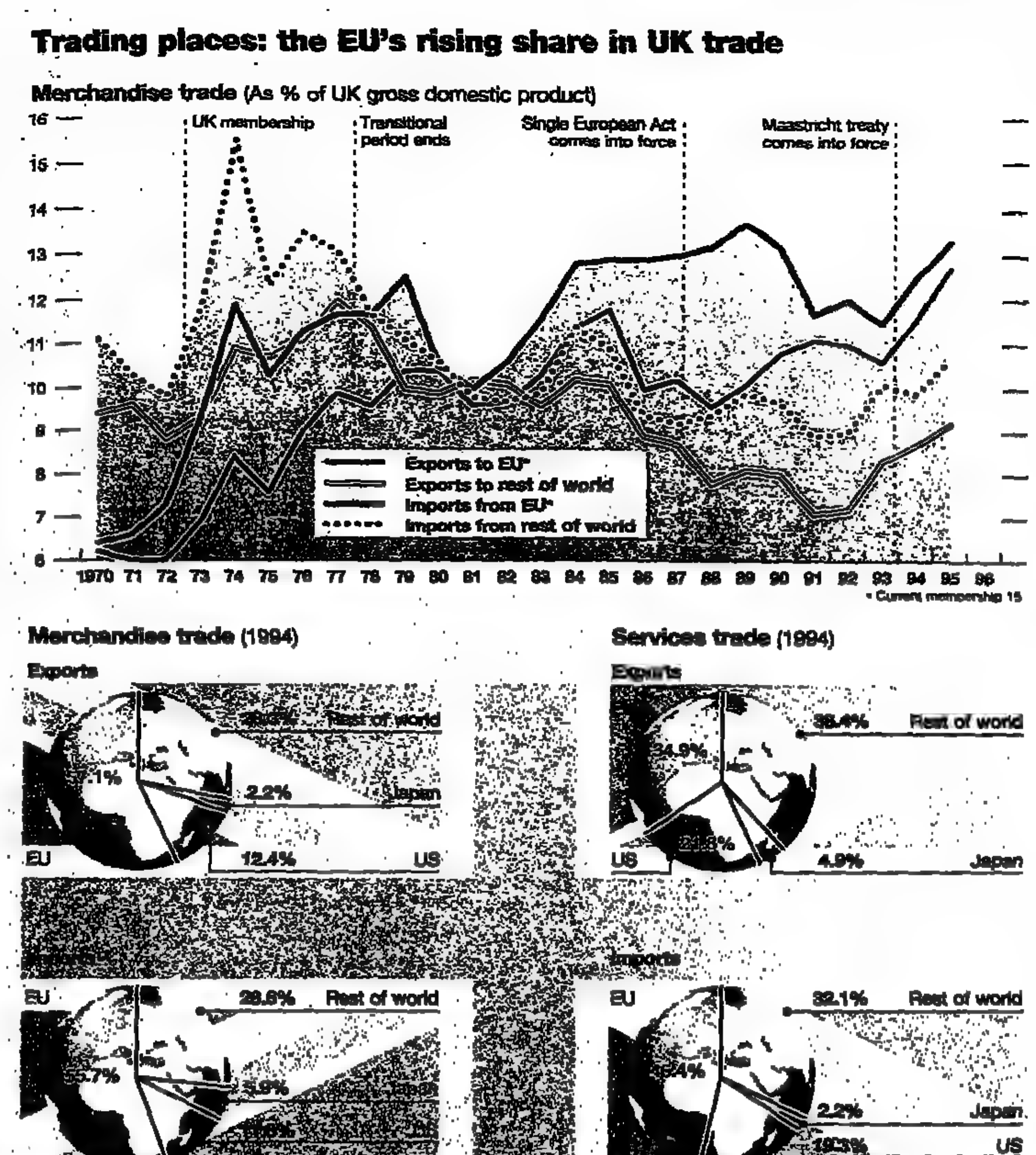
As for the costs and benefits of monetary union, Prof Minford argues that joining Emu could destabilise the economy. Since the UK is far from fully integrated with its neighbours, that ought to be true if the comparison were with an optimal domestic policy. But the actual choice is between two imperfect policies. More important, monetary policy probably has only modest effects on the long-term performance of an economy.

That leaves another great imponderable – the social chapter of the Maastricht treaty. The difficulty here is that its consequences are unclear – it is merely a set of enabling clauses. Prof Minford asks what would happen if the worst policies of other member states were imposed throughout the EU. What, for example, would happen if the minimum wage were set at two-thirds of the average wage, the power of trade unions in the UK returned to 1980 levels, and social costs on employers raised to German levels. The result, he estimates, would be a reduction in UK output of up to 20 per cent and an increase of up to 3m in unemployment.

This must be a colossal exaggeration. But his concern is legitimate. The labour market policies of the rest of the EU have imposed enormous costs, raising unemployment to some 11 per cent. If the UK were a member of the social chapter, it could not be confident that it would not be forced to adopt similarly damaging policies.

What is the bottom line? The net economic impact of EU membership is probably not that large. Provided the UK can keep clear of the dottier aspects of EU labour-market policy, that should remain the case. Membership of the EU seems to be a price worth paying for a voice in the institution organising the future of the continent. But anyone who thinks membership of the EU guarantees prosperity is fooling himself. In or out, it is the efforts and the skills of the British people that will largely determine how well the UK economy performs.

** Brian Burkitt, Mark Baimbridge and Philip Whyman, There is an Alternative: Britain and its Relationship with the EU, Campaign for an Independent Britain.*
*** Patrick Minford, Britain and Europe: the Balance Sheet, European Business Review, New European and Centre for European Studies.*



Source: Datastream, Treasury

· OBSERVER ·

Israel's flimsy cabinet

■ Benjamin Netanyahu, Israel's prime minister-elect, is finding that assembling a cabinet is not as easy as he thought. Technical competence, he let it be known, was to be the overriding criterion for appointments. And he promptly offered the job of finance minister to Jacob Frenkel, central bank governor, and former university of Chicago professor.

But the proposal has caused such sharp divisions within his own party that Likud insiders were saying last night that the offer was being withdrawn. Instead, they suggest, it will be extended instead to Dan Meridor, one of the party's moderates.

It seems that Netanyahu reckoned without the four princes of Likud, Dan Meridor, Ariel Sharon, Ze'ev Benjamin Begin (son of Menachem) and Moshe Katsav have made clear that he cannot expect to dole out the best jobs to people outside the party, and then to fob them off with such relative measly crumbs as science, technology, tourism, and communications.

The business community, which might look askance at the aborted attempt to appoint Frenkel, would nonetheless live happily with Meridor. It fears the alternative would be Sharon, and that his hardline nationalistic stance might be detrimental to foreign investment.

Russian roulette

■ Moscow is buzzing with rumours about what inducements the two leading presidential candidates are offering to the gruff-voiced Alexander Lebed, in order to win his support in next month's second round of voting.

Boris Yeltsin is reportedly dangling a newly-created post co-ordinating the so-called "power ministries", such as security and defence. The word is that Gennady Zyuganov has gone one better, suggesting Lebed could be prime minister.

More cynical observers, however, believe the decision may boil down to a simple actuarial calculation. Yeltsin is 65, Zyuganov is 51. Lebed, they suggest, does not want to hang around too long before having another crack at the top job – so he'll plump for Yeltsin.

Difficult choice

■ For one person, at least, it makes little difference whether Boris Yeltsin or Gennady Zyuganov ends up leading Russia.

Vytautas Landsbergis, the stolid, goatee-bearded musicologist who led Lithuania to independence – before being voted out by former communists, ironically enough – is unremittingly pessimistic about Russia's future.

Over a frugal breakfast of orange juice and biscuits at his country's London embassy yesterday, he lamented that Yeltsin was no longer the democratic hero who had rushed to the Lithuanian parliament's defence when it came under attack from Soviet tanks in January 1991. On the contrary, he asserted that Yeltsin's foreign ministry seemed bent on "revenge" for Russia's losses in the Baltic.

But Sunday's poll contained one small drop of satisfaction for Landsbergis: it gave a bloody nose to the right-wing Vladimir Zhirinovsky. He it was who once suggested bringing the Baltic republics to heel by blowing nuclear waste at them with giant fans. Not a nice man.

Disunited nations

■ Ructions at Geneva's World Trade Organisation – this time, nothing to do with trade tariffs. The WTO's 450 employees are striking tomorrow in protest at the failure of member countries to de-link their pay and conditions from those of the United Nations.

WTO member states decided before the organisation was set up (in January 1995) that it would have no formal ties with the UN. But, oddly enough, they have repeatedly put off the de-linking decision.

WTO staffers suspect that cuts in the UN's budget could lead to cuts in their own pay and pensions, already eroded over the past few years due to pay freezes and the fall in the US dollar – in which salaries are calculated under UN rules – against the Swiss franc.

"We're attached to a system that is spiralling downward for reasons that have nothing to do with the WTO," says Gretchen Stanton, chairman of the staff council. So there will be a work-to-rule – mainly a ban on overtime – next week, and again at the end of July.

Renato Ruggiero, director-general of the 121-member world trade body, backs de-linking. Surely he can persuade those key member countries – including the UK, US and Germany – who are foot-dragging?

Très bon-bon

■ A rare instance of sweetness and light in the Paris metro. The Paris Regional Transit Authority is dishing out chocolates to passengers. Some customer loyalty scheme, perhaps?

Not really. It's aimed at incorrigible smokers who cannot desist. Smoking is forbidden in the metro but many smokers ignore the no-smoking signs on platforms. So rather than bully the recidivists, the authority aims to persuade them with chocolates.

Next thing you know they'll be giving free slimming lessons to help travellers get through the gates...

The Financial Times

100 years ago

Total Wreck of a Cape Liner
Brest, France:- Last night the Cape Liner "Drummond Castle", bound from Cape Town to London, struck a rock off the Island of Molène, which lies between Ushant and the mainland. Three minutes after striking, the liner went down. The Maritime Prefecture has received a telegram, which has been communicated to the British Consul, stating that 250 persons including passengers and crew were on board. The latest telegram from Le Conquet, a small port on the Atlantic coast opposite the Island of Molène, states that all on board perished except three. Six bodies have been washed ashore on the Island of Ushant.

50 years ago

Burma War Losses
The terms of reference for a Claims Commission to register and assess claims for property lost or damaged in Burma as a result of the war is announced by the Burma Office. The Commission will arrange for the registration and assessment of claims for damage to land (including buildings) and goods, and in certain cases, losses in Burma arising from war circumstances. It will also deal with claims arising under war damage legislation of the Government of Burma.

FINANCIAL TIMES
Tuesday June 18 1996

Group would co-ordinate economic policies

France wants G7-style club for single currency

By Peter Norman in Bonn

France yesterday proposed that the governments signing up to the European single currency should form a club to co-ordinate budgetary and economic policies that could function in a way similar to the working of the Group of Seven among the world's richest industrial nations.

Mr Jean Arthuis, French finance minister, said the third and final phase of European economic and monetary union, due to start on January 1 1999, required an "economic policy pole" to be made up of economics and finance ministers that would stand alongside the planned European central bank to ensure economic stability.

Mr Arthuis believes Emu countries would need to co-ordinate closely on issues such as implementing budgetary policy and setting budgetary targets, exchange rate policy, the analysis of the business cycle and economic policy. However, policy co-ordination among the ministers, while equipped with a "high political authority and democratic legitimacy", need not be institutionalised.

"But to be effective it must be politically visible," the minister said. Citing the example of policy co-ordination among the leading industrialised nations, he added: "The G7 is after all not defined in any treaty and as an institution has no specific responsibility in the legal sense of the word. Yet no one can deny its capacity to act and its political visibility."

Mr Arthuis's suggestion adds a new element to the debate about policy making in an Emu which initially will be made up of only some of the European Union's 15 member states.

In his speech, prepared for delivery yesterday in Bonn, the French minister referred to the idea put forward last year by Mr Theo Waigel, German finance minister, for a "stability council" of Emu members; part of Mr Waigel's plan was for a European "stability pact", limiting budget deficits. Mr Arthuis's ideas went further by encompassing other areas of policy.

They appeared to echo French concerns that the planned European central bank, which according to the statutes of the Maastricht Treaty is committed to price stability and has more independence than the Bundesbank, might prove too powerful an agent of policy when ranged against the finance ministries of the various Emu member states. Under the treaty, these would be operating at a national level.

Officials at the Bonn finance ministry said they would be "interested to know more" about the French ideas.

The Bundesbank yesterday declined to comment. In the past it has made clear that it would resist moves to limit the power of the European central bank but would welcome action among Emu member states to ensure that their financial and economic policies are not in conflict.

EU spells out beef ban deal

Continued from Page 1

imposed the ban last month on political grounds, as a result of consumer fears over BSE, rather than objective facts.

In today's framework document, the Commission will propose that the embargo should be lifted in stages, conditional on full deliberation by EU scientific and veterinary experts.

Mr Werner Hoyer, Germany's deputy foreign minister, said: "De-escalation is the name of the game. Obviously Mr Major will need a face-saving device at the Florence summit."

Mr Rifkind signalled yesterday that the UK was willing to lift its block on an agreement to set up Europol, the new police agency pooling intelligence on drug traffickers and organised crime.

US and China

Continued from Page 1

time" allow US recording companies to enter into co-production ventures.

- **US film studios could engage in co-production either in the making of motion pictures or TV dramas.**
- **China has closed 15 pirate factories, including three "underground" plants, and would further strengthen enforcement procedures.**
- **Customs efforts to stop the export of pirate products would be enhanced and co-operation with US counterparts extended.**
- **Verification procedures to protect authentic products would become a feature of the enforcement effort.**

Power struggle delays formation of Israeli cabinet

By David Gardner and Ilene Prusher in Jerusalem

Mr Benjamin Netanyahu, the Israeli prime minister-elect, yesterday completed negotiations on the parliamentary majority needed to support his new rightwing government, but he failed to announce a cabinet because of a power struggle inside his Likud party.

While he mustered the required 61 of 120 seats, top ministerial portfolios such as finance and housing remained undecided as Mr Netanyahu, elected on a hawkish policy towards the Middle East peace process, sought to establish his authority.

Tense negotiations continued throughout the day as he appeared to be trying to diminish the influence of two leading Likud figures, principal among them Mr Ariel Sharon, the extreme rightwing former army commander whose mediation helped launch Mr Netanyahu as the sole candidate of the right.

By mid-afternoon, the new government's majority was secured with the entry of the Russian immigrant party led by Mr Natan Sharansky, a former Soviet dissident. But the full configuration of the cabinet is not expected until this afternoon.

The tussle for portfolios was fiercest over the housing ministry – which oversees settlement policy – and which at one stage yesterday appeared to have gone to Mr Sharon. In the last Likud government, he was the architect of settlement expansion and a policy aimed at changing the demography of Jerusalem to create a permanent Jewish majority.

At one point, it appeared Mr Sharon might be left out of the government, with Mr Netanyahu keeping the housing ministry for himself but under the operational control of a religious fundamentalist party.

There was confusion, too, about who would get the finance ministry. Yesterday morning, the post looked certain to go to Mr Jacob Frenkel, governor of the Bank of Israel, a move already being warmly welcomed by Israel's business community.

By last night, however, Likud officials said Mr Netanyahu might have to bow to party demands to give the post to Mr Dan Meridor, a former justice minister and potential rival.

Earlier in the day, Mr Netanyahu published the agreed programme of the new government, stressing a commitment to radical economic reform and reiterating his uncompromising terms for peace with Israel's Arab neighbours.

The programme rules out a Palestinian state, pledges to expand Jewish settlements in the West Bank and retain complete Israeli sovereignty over occupied Arab east Jerusalem, as well as deny the right of return of over 4m Palestinian refugees.

Netanyahu unveils reforms to liberalise economy, Page 7
Observer, Page 13

Loyalists warn of resumed violence in N Ireland

By John Kampfner in London

Northern Ireland terrorism threatened last night to spiral after the largest Protestant paramilitary group warned it had put its operatives on full alert.

The prospect of a resumption of violence by loyalists, whose political representatives have been among the strongest voices of moderation in the unionist community, will alarm London and Dublin.

The Ulster Freedom Fighters said it had come to the "considered view" that the Irish Republican Army was planning to return to violence in the province for the first time since it declared a ceasefire in August 1994.

Since breaking the ceasefire in February, the IRA has focused its bombings entirely in Britain, culminating in Saturday's blast in Manchester, in which more than 200 people were injured.

Yesterday Mr Gerry Adams, president of the IRA's political wing Sin Féin, said: "I want to make it clear that Sinn Féin will not be scapegoated. We were not responsible for the bomb explosion. In fact our peace strategy remains central to our party."

The Irish government meets today to reappraise its relationship to Sinn Féin, with ministers casting doubt on the ability or readiness of Mr Adams to stop the violence.

British ministers have made clear that a simple statement by the IRA reinstating a ceasefire will no longer suffice. Later this week the cabinet is expected to set hardened conditions for Sinn Féin's participation in the current all-party peace negotiations.

In its statement, the UFF said it had alerted its personnel to an "imminent" return to violence by the IRA in the province. While remaining "prepared for all eventualities", the UFF said it was fully committed to the peace process and called on the IRA, even at this late stage, to reinstate its ceasefire. Mr Gary McMichael, leader of the Ulster Democratic Party, which is linked to the UFF, said: "I think it would be wrong of me to be anything but honest – we are at a critical point in the peace process."

He added: "We must use all power and responsibility and all influence that we have to try to ensure that there is not a degeneration into full scale conflict."

Mr Billy Hutchinson of the Progressive Unionist Party, the second loyalist party taking part in the all-party talks, said: "Every time an IRA bomb goes off we are a step closer to a resumption of loyalist violence."

Loyalist terrorism in the early 1990s was at least as brutal as the IRA's and was seen as instrumental in persuading Sinn Féin that its ends would be best pursued by peaceful means.

Ireland's elusive peace, Page 8

THE LEX COLUMN

Copper troubles

FT-SE Eurotrack 200: 1725.8 (+3.7)

Deutsche Babcock

Share price relative to the Dax index

Source: FT Extel

Much remains murky in the saga surrounding Sumitomo Corporation's massive copper trading losses. But in the rush to allocate blame, it is important to distinguish between the two quite separate issues at stake.

The first, genuine worry is that the London Metal Exchange may have been slow to react to the activities of Mr Yasuo Hamanaka, Sumitomo's former chief copper trader. It is not, of course, the LME's concern whether or not Mr Hamanaka was losing money. The worry is that his losses may suggest he was trying to prop prices up artificially. This may or may not have been the case – but if it was, it was certainly the LME's job to stop him.

Nonetheless, whatever his motives, Mr Hamanaka does not seem to have been doing that well either. Even if his activities may have helped keep the price implausibly high, they still appear to have been disastrously unprofitable. The hedge funds, apparently betting that prices would fall, clearly did not believe Mr Hamanaka's strategy was sustainable.

The separate worry relates to controls within Sumitomo itself. This is nothing to do with the LME, or any other regulator; it is essentially the shareholders' problem. Investors have every right to complain if, as the company claims, it did not know that a key employee was running up such huge losses. But they should lay the blame at the doors of the management, not regulators. Although Sumitomo Corporation is loosely allied to Sumitomo Bank, it is not itself a bank; it could have gone to the wall without posing anything like the systemic risk of a banking collapse. So investors in Sumitomo Corporation – and trading houses like it – cannot expect to be mollycoddled by regulators in the way banking investors are. They need to ask their own tough questions.

Lufthansa

In yesterday's profits warning, Lufthansa whinged about competition from subsidised state-owned European rivals. The criticism has some merit, but it is not the full story. Lufthansa is facing competition from private-sector airlines, notably British Airways, too. Over-capacity and price-cutting are, indeed, a feature of some airline markets. But Lufthansa is hardly innocent; its capacity in the first four months of this year was 5 per cent higher than in the comparable period of last year. Meanwhile, its costs are not sufficiently low to respond to the price-cutting; so it has had to cede market share. Competition has been particularly fierce in the cargo market, where it is the market leader. It is still unclear just how bad things are. If an unconfirmed press report that Lufthansa made an operating loss of DM200m in the first five months of this year proves correct, the situation is bleak. Given that the airline lost DM49m in the seasonally poor first quarter, that would imply a sharp deterioration in April and May when business normally picks up.

But even if the report proves exaggerated, as most analysts believe, Lufthansa will have its work cut out to earn decent levels of profit. The company was yesterday stressing its determination to cut costs by DM1bn over five years. But competition is intensifying and rivals are cutting their costs too. British Airways, for example, which is roughly the same size as its German rival, is planning cuts of £1bn over three years. Lufthansa will need to do more.

Deutsche Babcock

Shareholders in Deutsche Babcock, the German boiler maker, must have steam coming out of their ears. After six years of fruitlessly trying to turn around one of the country's biggest engineering groups, Mr Heyo Schmiedeknecht, chairman, has warned of yet more restructuring costs and a DM300m operating loss this year.

Like many German companies, Deutsche Babcock is struggling with weak demand at home and an uncompetitive currency abroad. But the group has added to its problems by buying loss-makers such as textile machinery maker Moenus and by partly floating off profitable subsidiaries such as Flender, which manufactures gears. Worst of all, the group is heavily undercapitalised. Shareholders' funds of just DM340m are supporting annual turnover of DM8bn and [illegible] cash last autumn of DM160m includ[illegible] DM3.5bn of customer advanc[illegible] Despite that, Deutsche Babcock h[illegible] ambitiously taken on big contracts, [illegible] did Bremer Vulkan and Klöckn[illegible] Humboldt-Deutz, both of which r[illegible] into serious trouble earlier this yea[illegible]

The group's poor financial positi[illegible] is at the heart of its problems, mea[illegible]ing the pace of internal restructuri[illegible] is dangerously slow. Disposals, whi[illegible] Mr Schmiedeknecht has been promi[illegible]ing for months, are difficult becau[illegible] the book losses would erode the cap[illegible]tal base. And there are no funds [illegible] expand the core power engineerin[illegible] business, which has sound technolog[illegible] into Asia. Meanwhile, the group seem[illegible] to have put off potential predators lik[illegible] Siemens and construction group Ph[illegible]lipp Holzmann. But without a capita[illegible] increase, the group's prospects loo[illegible] grim.

Hollywood

Hollywood is finally waking up t[illegible] the fact that more does not mean bet[illegible]ter. The splurge of film-making i[illegible] recent years has driven up the cost o[illegible] attracting talent, so much so tha[illegible] some stars can now command $20m a[illegible] film. Promotional spending has also shot up, as studios compete for film-goers' attention. But viewers have been unimpressed. The number of films made in the US last year rose by 9 per cent; the box office take went up only 1 per cent. An increasing number of films flop after a few weeks.

Disney's decision to halve its production of feature films, following Viacom's cutback at its Paramount studio, probably marks a reversal in the trend. There is, of course, a risk that rivals will take advantage of such moves by attempting to grab market share. But, given Wall Street's unhappiness with Hollywood's profitability, the prospects for a more generalised cutback look good.

The impact on profitability of an industry-wide retrenchment could be dramatic. Given that boosting film production did little to increase the box office take, cutting their number is unlikely to deter film-goers. So every $70m or so not spent on making a film is probably $70m saved. Moreover, in the longer term, if fewer films are made, their average cost could fall. There would be less need to shell out millions on marketing to be heard amid the din; stars might even find themselves competing for roles in the best films.

Additional Lex comment on British Steel, Page 20

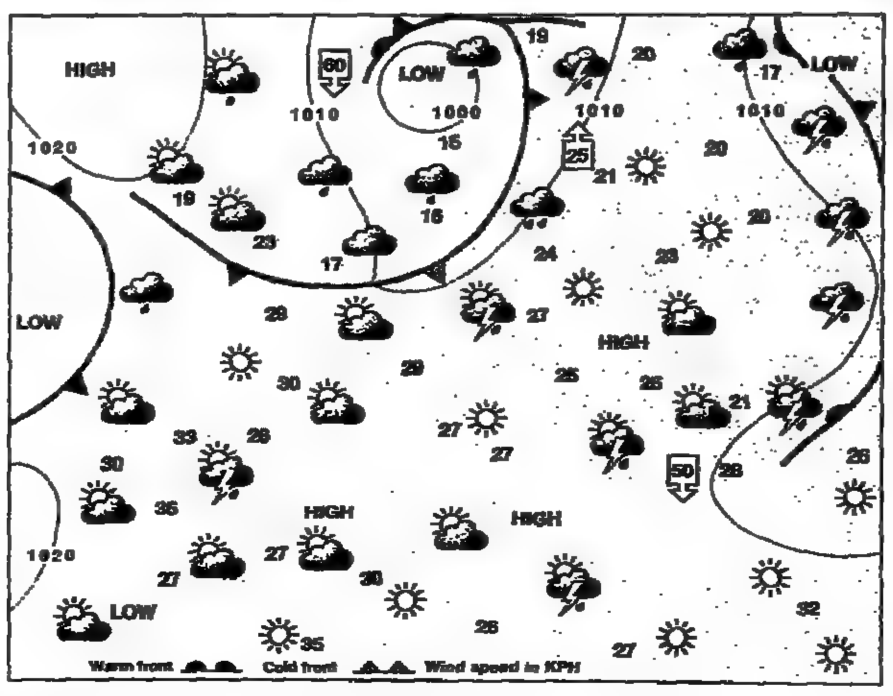
FT WEATHER GUIDE

Europe today

Scandinavia will be cloudy with rainy periods. A few breaks are possible in southern Sweden and Denmark but these will be interspersed with showers. Near gale force winds will occur along the Norwegian coast. The Benelux and the British Isles will be rather sunny in the south but cloud will drift in from the north bringing occasional showers to northern Scotland. France will be sunny and very warm. Spain and Portugal will have more cloud with several thunder showers inland. High pressure will continue to promote sunny and warm conditions over the Mediterranean and the Balkans, but thunder showers are expected over the southern Alps and in western Greece. Eastern Europe will be mostly sunny and warm but the Baltic republics will be cloudy with thunder showers.

Five-day forecast

Scandinavia will remain mostly cloudy with rainy periods. The British Isles will become cooler with patches of rain. Thunder showers will occur along a frontal zone which will become stationary over France, Germany and north-west Russia. High pressure will continue to promote abundant sun across the Mediterranean. A disturbance with thunder will enter south-western Europe on Thursday.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius																
			Beijing	fair	32	Caracas	fair	33	Faro	sun	27	Madrid	fair	33	Rangoon	rain	27
			Belfast	fair	18	Cardiff	sun	21	Frankfurt	fair	27	Majorca	sun	28	Reykjavik	fair	13
Abu Dhabi	sun	38	Belgrade	sun	27	Casablanca	fair	25	Geneva	fair	28	Malta	sun	27	Rio	sun	31
Accra	shower	29	Berlin	fair	22	Chicago	thund	21	Gibraltar	sun	26	Manchester	fair	18	Rome	fair	27
Algiers	fair	27	Bermuda	sun	26	Cologne	fair	24	Glasgow	cloudy	17	Manila	shower	36	S. Frsco	sun	26
Amsterdam	fair	17	Bogota	sun	18	Dakar	fair	32	Hamburg	cloudy	15	Melbourne	fair	16	Seoul	shower	26
Athens	sun	28	Bombay	rain	35	Dallas	sun	37	Helsinki	rain	19	Mexico City	shower	22	Singapore	rain	31
Atlanta	fair	32	Brussels	fair	22	Delhi	fair	32	Hong Kong	rain	26	Miami	thund	32	Stockholm	shower	15
B. Aires	shower	10	Budapest	sun	28	Dubai	sun	37	Honolulu	cloudy	31	Milan	fair	28	Strasbourg	sun	29
B.ham	fair	20	C.hagen	shower	15	Dublin	sun	19	Istanbul	sun	24	Montreal	sun	23	Sydney	fair	16
Bangkok	shower	34	Cairo	sun	33	Dubrovnik	fair	27	Jakarta	fair	32	Moscow	fair	17	Tangier	fair	28
Barcelona	fair	25	Cape Town	fair	17	Edinburgh	fair	17	Jersey	sun	22	Munich	sun	27	Tel Aviv	sun	29
									Karachi	sun	38	Nairobi	fair	24	Tokyo	rain	25
									Kuwait	sun	46	Naples	sun	28	Toronto	cloudy	24
									L. Angeles	sun	24	Nassau	fair	30	Vancouver	fair	17
									Las Palmas	sun	26	New York	thund	28	Venice	fair	28
									Lima	cloudy	19	Nice	sun	25	Vienna	sun	27
									Lisbon	fair	30	Nicosia	fair	32	Warsaw	drzzl	23
									London	fair	23	Oslo	rain	16	Washington	thund	29
									Luxbourg	fair	24	Paris	sun	29	Wellington	sun	10
									Lyon	fair	30	Perth	shower	18	Winnipeg	thund	24
									Madeira	fair	22	Prague	sun	28	Zurich	fair	27

FRANCE

New captain steers a steadier course

Now firmly at the helm, President Chirac is giving full backing to Alain Juppé, his prime minister, in his efforts to reduce deficits and strengthen the economy, writes David Buchan

After some months of drifting, tacking and navigating the squalls of last December's public sector strikes, France, under President Jacques Chirac, has regained a certain sense of direction.

There is progress on straightening out the country's public finances, on reforming France's welfare system and the free-spending habits of its patients, doctors, hospitals and drug companies, and on joining the rest of the industrialised world in partially privatising telecommunications and trimming its defence industry to post Cold War proportions.

Once it sorts out its public finances, including the awkward system that places 85 per cent of all welfare costs on payroll charges and so discourages employers from expanding their workforces, France can look to its private sector to herald a brighter future. Low inflation, good infrastructure and fairly high reinvestment of corporate earnings in new technology have helped keep larger French companies competitive, reflected in steady trade surpluses with the rest of the world.

With unemployment at 11.9 per cent, there is still no feel-good factor. But prime minister Alain Juppé has promised a five-year tax-reduction plan from 1997 in order to encourage consumers to spend more now and to give his centre-right majority a more popular platform on which to fight the 1998 parliamentary, regional and cantonal elections.

Of course, in terms of meeting the Maastricht criterion for getting France's overall deficit down to 3 per cent in 1997 and thereby qualify for economic and monetary union (Emu), the tax-cutting pledge was highly premature.

France's Social Accounts Commission has since estimated this year's social security deficit as three times more than the FFr17bn that Mr Juppé hoped to achieve through his welfare reforms. The Commission warns that the welfare system will probably stay in the red next year, so France seems to have little chance of achieving its 3 per cent target in 1997.

Yet far from falling on their swords, French ministers and officials seem somewhat laid back, reflecting their country's special position in the Emu project.

They know that even Germany will have problems in satisfying the Maastricht criteria next year, and believe that as long as France's performance is very close to that of Germany's, President Chirac and Chancellor Helmut Kohl (the German Bundestag permitting) might be able to fudge the criteria for allowing both countries to enter Emu. In the last resort, France is virtually the only country other than Germany which is confident that Emu cannot, in practice, start without it.

German ministers have repeatedly said that a monetary union without France would be too small to make economic or political sense. But the French government does not want to state this publicly for fear of lessening the pressure for reform.

The French find it notoriously difficult to pursue steady, progressive reform. They see themselves as an innately conservative people, who can only achieve reform in sporadic, revolutionary bursts. But, apart from a rooted attachment to their cuisine, their little shops, and the contrasting splendours of Paris and rural France, the French are really just as modern-minded as other Europeans.

What they do have, under the 1958 Fifth Republic, is a set of political institutions that make reforms difficult. On most economic and social problems, presidents of the Republic tend to pass the buck to intrinsically weak prime ministers who essentially depend on their president's goodwill rather than the support of parliament.

Governments are rarely elected on precise programmes, because political inspiration is left to presidents, not political parties which, like parliament itself, are weak. Into this relative vacuum, unions or other lobby groups, which may have small but vocal memberships, can easily step in to play a determining role.

In these circumstances, the vague and contradictory nature of Mr Chirac's election platform was hardly surprising. Luckily, Mr Chirac – gaullist though he is – has personally papered over some of the Fifth Republic's institutional cracks. He is directly involving himself in reform of the armed forces and the armaments industry; indeed some people might like him also to take the country's overstaffed and unprofitable banking sector in hand.

After taking six months to clear his throat, the president is now giving full support to the efforts of Mr Juppé to reduce budget and social security deficits. Now that it is clear that the prime minister is no longer hurting his own rating in the polls, Mr Chirac may well maintain Mr Juppé at his post until shortly before, or just after, the 1998 elections.

He made an impulsive start in defence and foreign policy. He authorised nuclear weapons tests and reacted with hurt pride and diplomatic snubs to those European countries who dared to criticise them. His EU critics were, Italy apart, the smaller members, and there was an element of bullying in his reaction. But he has since buried the hatchet with these EU partners.

His recent impulses seem better directed, notably in his speedy involvement of France in the search for a ceasefire in south Lebanon, thereby giving it at least a new walk-on part in Middle East diplomacy. In seeking better relations with President Yeltsin of Russia and in hosting Prime Minister Li Peng of China in Paris, Mr Chirac has adopted a more pragmatic line about human rights abuses in those countries.

He also shows greater affinity with the US than any of his predecessors at the Elysée Palace. As a young student, Mr Chirac worked at a Howard Johnson diner and, on his presidential visit to the US last year, he was prepared to face Larry King on a live TV show.

France still sees itself in direct competition with the US in such areas as aircraft manufacture, agriculture, even film making. But the French public, which has never been as anti-American as some French leaders have assumed, has largely gone along with Mr Chirac's rapprochement with Nato.

The exceptions were a few left wingers who criticised France's return to full participation in Nato meetings after an absence of 30 years.

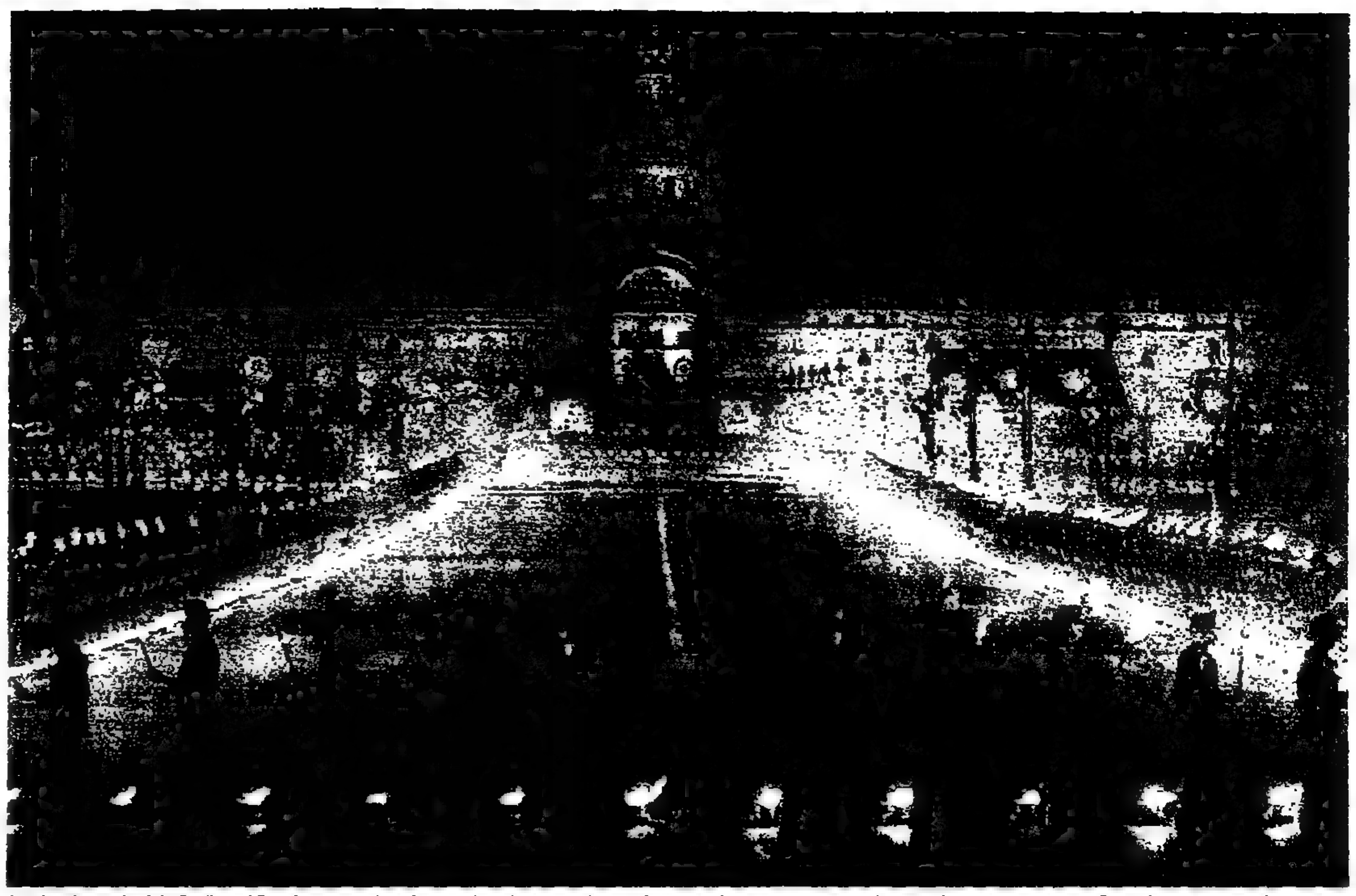
French officials pay warm tribute to Britain's help in smoothing the way for France's return to Nato and, if it were not for Britain's beef crisis, Mr Chirac's successful state visit to the UK last month would have ended on an even higher note. As it is, he has played a conciliatory role in the beef crisis, which has earned him some criticism from consumers and farmers at home.

But Mr Chirac has devoted most effort to developing the key relationship with Germany. Within days of arriving at the Elysée last May, he rushed off to see Chancellor Kohl in Strasbourg. His public conversion last October to deficit reductions came after a trip to Bonn. On another trip there last month he and Mr Kohl agreed to step up their contacts by meeting at least once every six weeks or so.

The two men started their Franco-German summit earlier this month in Dijon and then, unexpectedly, continued the next day in Paris. Much of this recent Franco-German "va et vient" is aimed at preventing France's defence reforms from dislocating its military co-operation with Germany. However, new plans for closer defence ties, made easier by Paris rejoining Nato, are scheduled for the end of this year. The only negative reactions to this drive for ever-closer relations with Germany have come from the left and right fringes of French politics.

Mr Jean-Pierre Chevènement, Mitterrand's former defence minister who left the Socialist party after he refused to order French troops into the Gulf war, has written a new book entitled "France, Germany, Let's Speak Plainly". In it he warns against France becoming a "feudal" vassal to Germany, and claims the balance of power between them is too lop-sided for the relationship to remain harmonious.

Few French think of themselves as vassals to anyone. But many would agree that lop-sided relationships can be uncomfortable, and say that this is one more reason why France needs to carry out reforms – at least as rapidly as Germany.



Evoking the spirit of de Gaulle: soldiers form a tricolour Cross of Lorraine, symbol of the Free French forces, during last November's commemoration of France's anti-Nazi war leader

IN THIS SURVEY

Production editor: Maurice Samuelson

POLITICS: by David Buchan

Three-legged race team

President Chirac and prime minister Juppé may develop an unusually long partnership

Under the Fifth Republic no president has kept the same prime minister for a whole seven-year presidential term and probably few prime ministers would have wanted to stay on that long.

But, after a shaky spell during last December's strikes, Mr Alain Juppé now looks more durable than most previous prime ministers. President Chirac evidently reciprocates Mr Juppé's long-standing loyalty in a relationship that is proving more harmonious than any since that of President Charles de Gaulle and prime minister Georges Pompidou.

However, if Mr Juppé is still prime minister at the time of the spring 1998 parliamentary elections, he will almost certainly be leading a different team into the fray.

The first reshuffle last autumn was designed to trim the top-heavy government of more than 40 ministers which Mr Chirac had appointed to repay many of his presidential election campaign debts. In November Mr Juppé formed a smaller and tighter team which also included some members of the rival gaullist camp of Mr Edouard Balladur, who lost to Mr Chirac.

If Mr Chirac had followed up his May 1995 presidential victory by calling a snap parliamentary poll and giving himself a new centre-right majority in his own image, there might have been no need for further reshuffle. But since he failed to do this, the next legislative elections can not be later than the spring of 1998. Mr Juppé needs to freshen the face of his government, to try to boost his own popularity, to bring in more gaullist Balladurians, to take account of the recent leadership change in his UDF coalition partner, and to counter the modest resurgence of the opposition Socialist party.

The likelihood of Mr Balladur himself serving in a Juppé government is slim because of hurt pride and hard feelings on both sides. It is just possible that a ministerial call might come for Mr Nicolas Sarkozy, who was Mr Balladur's able but very abrasive chief lieutenant and who has been championing the need for tax cuts from the back benches. Mr Juppé bowed to some of this pressure in late May by pledging to phase in cuts over five years starting in 1997.

The most interesting, and most likely, gaullist addition to the government would be Mr Charles Pasqua. He is still a heavyweight in the RPR gaullist party, though his reputation for shrewdness suffered in his last year as Mr Balladur's interior minister and presidential backer.

But his hardline approach on law and order, combined with a populism delivered in an inimitable Marseille twang, has always been rated as one of the traditional right's best weapons against Mr Jean-Marie Le Pen. The latter's far-right National Front won three southern cities in last June's municipal elections, and is still favoured by opinion polls. Mr Pasqua's experience and links with Corsica might also seem useful if lawlessness on the island were to get worse.

Loyalist: premier Alain Juppé is also president of the RPR gaullist party

If Mr Chirac had called parliamentary elections in the immediate wake of his Elysée victory, his relatively few allies within the UDF (which instead of fielding its own presidential candidate in 1995 opted very largely for Mr Balladur) might well have won control of the centre-right federation. As it turned out, Mr Alain Madelin, a leading Chirac backer who was briefly finance minister until a personality clash with the prime minister ousted him from the first Juppé government, lost his bid in March to replace Mr Valéry Giscard d'Estaing as head of the UDF.

In managing his coalition, Mr Juppé who is himself president of the RPR gaullists, must now treat with Mr François Léotard who beat Mr Madelin for the UDF presidency. It was not much of a contest, because Mr Léotard was already head of the Republican party, a major constituent of the UDF, and had the backing of Mr François Bayrou, the education minister who is also leader of Force Démocrate, another big component of the federation.

Mr Léotard presents a potential problem for Mr Juppé. The UDF president has pledged full support for the government, but he was a strong erstwhile Balladurian and has criticised aspects of defence and tax policy from the backbenches. He is being pushed – by Mr Madelin as much as anyone else – into trying to give the UDF, hitherto a loose electoral alliance of disparate parties, a more unitary structure.

Ultimately, it could therefore rival the RPR, particularly if it were also to exploit its European credentials. Unlike the RPR gaullists who find it ideologically hard to link up with other European parties, the strongly pro-European UDF has the right mix of conservative economic policies and centrist social concerns to fit in with European Christian Democrats, and particularly Chancellor Kohl's CDU. Indeed, Mr Léotard now prposes regular UDF meetings with the CDU.

In the shadow of the founder of the Fifth Republic: President Chirac walks past a portrait of President Charles de Gaulle

There have been many times in the recent past when the Socialists, too, have been less a party than a tenuous federation of back-biting barons, each with their *courant* based less on ideology than personality. This has changed. The decision to hold an open primary election to select their

National Assembly

Party	Seats
RPR gaullists	259
UDF centre-right	206
Socialists	62
Communists	23
Independents*	27
TOTAL	577

* mostly on the left

1995 presidential candidate, the very respectable 48 per cent won by Mr Lionel Jospin in that election, the grace with which Mr Henri Emmanuelli subsequently ceded the party leadership to Mr Jospin, perhaps even the demise of François Mitterrand with his divide-and-rule tactics, have all promoted more unity in the party.

Mr Jospin is consolidating his leadership, though it remains – even in France's semi-parliamentary system – a handicap for him to be currently without a seat in the National Assembly; during key parliamentary debates, he has to write articles in the press to make his voice heard. Mr Laurent Fabius, one of Mr Jospin's old party rivals, acts as the party's parliamentary leader, but that division of roles does not seem to be creating the tension one would have once imagined.

Influenced by Mr Jacques Delors, the former European Commission president who like his daughter, Mrs Martine Aubry, sits on the party's national executive, the Socialists have stayed more or less true to the Maastricht treaty they signed for France.

"The main difference from when we were in government is that we don't make a religion of the Maastricht criteria," says Mr François Hollande, the party spokesman. "We don't take them too literally, or believe that monetary union should be delayed if they are not met to the last decimal point."

The Socialists do not quarrel with the goal of reducing France's public deficits, but they dispute Mr Juppé's means of achieving it. They fault the prime minister for having overtaxed France in his first year and now threatening savage cuts in education and housing, while risking a clash with the unions over cutting civil service numbers which would save a mere FFr1-2bn in the short term.

After crashing to defeat in the 1993 parliamentary elections, the Socialists have nowhere to go but upward. Of the nine seats which have changed hands in the 31 by-elections held since the Chirac election, seven have gone to the Socialists and one other to a left-wing ally. "At present, our vote is running about 12 percentage points above our 18 percent score in 1993, and this might give us an extra 100-150 seats in 1998," says Mr Hollande. In terms of tactical voting, the Socialists can rely on their electoral alliance with the Communists, even though forming a government or a programme together, as they did in 1981, is now unthinkable because of differences over Europe; like the National Front, the Communists remain solidly anti-Maastricht.

But Mr Hollande is very cautious about forecasting victory in 1998 on the basis of recent by-election results. Thanks to their enormous gains in 1993, the RPR-UDF have many MPs able to wield influence and patronage, while Mr Chirac is also sure to throw himself into the 1998 contest – to ensure he does not spend his last four years in the Elysée cohabiting with the left.

SOCIAL SECURITY: by David Buchan

Public's moment of truth

Painful cuts are in the offing to reduce the huge cost of pensions, health and welfare

The political spotlight has increasingly focused on France's social security system, for two reasons.

First, French welfare is still 80 per cent funded by payroll charges rather than taxes, and the high level of these charges creates a considerable disincentive for employers to hire more of the country's 3m jobless.

Second, social security accounts for a large chunk of France's overall public deficits which must be reduced to, or very near, 3 per cent of national output if the country is to qualify for European monetary union. Indeed it is probable that, if the social security deficit is not eliminated in 1997 France will fail to qualify.

The Juppé plan of last November was, in fact, more ambitious. It aimed at reducing the deficit of the "general regime" (composed of pensions, family allowances and health insurance) from an estimated FFr60bn for 1995 to FFr17bn this year and at producing a FFr12bn surplus in 1997.

Six months later, the position looks much worse. The figure for 1995, when it is finalised this month, will be around FFr70bn, and this year's deficit for the general regime is now being estimated at around FFr40-45bn and a possible break-even forecast for 1997. The only part of the welfare system now in surplus is the Unedic unemployment scheme, run separately by employers and unions who, in a rare moment of courage and self-restraint in 1993, raised contributions and cut benefits.

Curiously, it was not really last December's strikes that knocked the government off course. When Mr Juppé abandoned his attempt to extend a 1993 pension reform from the private to the public sector, it was a serious blow to his pride, but not to his arithmetic. Putting civil servants on the same pension footing as the rest of France would have produced only minor initial savings to the government.

The main problem is lower welfare receipts from payroll charges, due to the downward dip in the economy in late 1995 and the subsequent slight rise in unemployment. Further changes in welfare funding are planned. The Balladur government started by shifting a portion of family allowance charges paid by employers on to the state budget and general taxation.

The Juppé government plans the creation of a single, universal health insurance charge which will be levied on a wider revenue base than just salaries. This will spread the burden more widely, and eventually make welfare funding less sensitive to changes in economic activity as well as less of a disincentive to employment.

But the government claims that 90 per cent of its reforms on welfare spending are intact. Family allowances have been largely frozen this year, though the government is still dithering about whether to relate them more to individual families' incomes or to tax them.

The main changes relate to the health sector, one of the world's most extravagant because it combines US-style freedom of choice for patients with a high European level of state reimbursement of their expenses. In 1994 health insurance accounted for FFr32bn of the general regime's FFr55bn deficit.

● **Political control.** The French social security system has developed as a series of insurance funds, nominally managed by unions and employers who still finance the lion's share of it. The government has increasingly influenced all key welfare decisions, for the simple reason that it has had to plug – either by direct payment or indirectly by guaranteeing bank loans – welfare deficits. But up to now, the parliament has had no say.

> The doctors often seem to compete only in their eagerness to prescribe whatever the patients want

Under a new constitutional amendment, deputies will henceforth set annual targets for welfare spending, including health insurance, which the government intends to use to rein in France's free-spending doctors and hospitals. One large union, Force Ouvrière – which has long dominated the administration of health insurance – campaigned against what it called "a state takeover", and thus the government decided to let the "social partners" keep much of their co-management role; but it has restored to employers, regarded as more penny-pinching, their parity with unions and will nominate key managers in all the new health institutions it has created.

● **Hospitals.** France has an average of 1,250 hospital beds per 1,000 inhabitants, compared with the European average of 800. This translates into some 60,000 surplus beds, partly because with more effective care patients can nowadays be sent home earlier. In future, hospitals will be required to plan and rationalise their business under three to five year contracts with new regional hospital agencies. A new National Health Evaluation and Accreditation Agency is to be set up to issue good practice guidelines.

● **Doctors.** France is not so exceptional, among European countries, in having 180,000 doctors relative to its population. But it has too few in its hospitals (where some 9,000 foreign doctors work), and too many (108,000 in all) in independent practice. In the latter category, it has a disproportionately large number of specialists – 48,000 – compared with 60,000 generalists.

At times, it seems that the only rivalry among this host of doctors is in their eagerness to prescribe almost any treatment or drug their patients want. The government hopes to steer more doctors into "non-prescribing" jobs, such as running preventive health clinics in companies or schools. But it also plans to discourage over-prescription by freezing fee increases and setting financial penalties for doctors who are "too free with their pens".

Doctors, particularly specialists who are more opposed to the Juppé reforms than the generalists, have so far paid scant attention to government-set spending limits.

The first three months of this year showed no sign of the government meeting its 1996 target of containing the rise in health insurance costs to 2.1 per cent (after 4.7 per cent in 1995). But the government claims that, with a 0.3 per cent decline in April, the tide may be turning.

The government also plans to re-launch the scheme of a "carnet medical", or medical record card, so far only distributed to some 45,000 old people. The aim is not just to help doctors and patients. The government also wants to use the card, to be computerised from 1998 on, to cut out paper work for the health insurance agencies (which handles 1bn prescriptions a year) and to keep tabs on doctors who over-prescribe.

● **Drugs.** The pharmaceutical industry feels victimised by the government's demand that it make a special FFr2.5bn "contribution" this year to closing the health insurance deficit. It points out that this amounts to a FFr30,000 tax for every job in the industry, and that it already has to pay a special tax on its promotion activities. The government is unrepentant, blaming the drug companies for last year's surge in drug reimbursement costs and for taking no interest in cheaper generic medicines that could help solve the problem. While generics account for 25-30 per cent of the drug market in the UK and Germany, they represent only 3 per cent in France.

For his part, Mr Bernard Mesuré, president of the SNIP pharmaceutical industry association, concedes that health spending will exceed the government guideline of 2.1 per cent this year, particularly because of estimated 7-8 per cent increases in drug prices and doctors' prescriptions. But he is against fixed government controls on what has become the largest pharmaceutical industry in Europe.

■ TAXATION: by Andrew Jack

Wise men offer 55 pages of advice

Proposals to reform the rickety tax system abound, but action is constantly deferred

The French tax system suffers from an unusual problem. Everyone talks about reforming it, and most people have ideas about what is wrong with it, but no one seems brave enough to change it.

In early June, the latest indictment of the current state of affairs was submitted to the government and released to the public. The 55-page report of the "five wise men" headed by Mr Dominique de la Martinière, a former head of the tax service, was a compelling critique of the current situation.

It called among other things for an abolition of many of the current complex tax deductions, a simplification and reduction in the number of income tax rates, and a wide-ranging reform of the charges on companies by both national and local government.

It might at first seem strange that such a powerful analysis could be drawn together so quickly. After all, it was only in early April that Mr Alain Juppé, the prime minister, asked them to set to work, giving them less than two months to come up with their findings.

But the group's conclusions were strangely familiar to most tax experts. They put forward many proposals which had been made before – most recently last year by another gathering of experts which included Mr Bernard Ducamin and Mr Robert Baconnier, who were both members of the successor committee.

The fact is that tax reform is an intensely political subject. The problem with the Ducamin report was that it was commissioned by Mr Juppé's predecessor and increasingly vocal political rival, the fellow Gaullist presidential contender Mr Edouard Balladur.

Mr Juppé decided on the day before the de la Martinière report was published to announce wide-ranging tax reforms over five years, starting from the beginning of 1997. He provided little substantive detail but had a chance to pledge tax reductions in an effort to stave off Mr Balladur's increasingly critical calls for rapid cuts.

However, Mr Juppé also left himself with considerable room for maneouvre, stressing that he would in no way be bound by the conclusions of this latest group of experts. Like a number of other pledges including a long-standing one to introduce pension funds, observers are holding fire until whenever the reforms might finally appear.

There has been a long and strong tradition in France of adding new "temporary taxes" – such as last year's 3 percentage point corporation tax rise – which become permanent, and of adding new deductions while not taking away the existing concessions. All that combined with a tendency towards evasion and avoidance.

The maze of deductions has also become increasingly complex to manage. Early this year, ministers announced new measures designed to boost economic growth. High up their list of concessions were new tax deductions for those spending on consumer goods. Over the next few months, they will launch a series of "free zones" in troubled urban areas. Reduced charges for employers are on the agenda.

As de la Martinièe's report bluntly puts it, the French system "seems to have lost its elasticity", with income from taxes not rising in line with revenues and economic growth, and with a jump in demands for deductions. "It is as though ... discouraged by the constraints placed on them ... [taxpayers] have abandoned all strategy of conquest in favour of survival tactics."

During 1996, the country is set to break all records, with existing projects suggesting that the total rate of tax contributions and social payments will reach 45 per cent of gross domestic product.

By international standards, France has very high rates of tax. Yet the system is also extremely skewed. Income taxes are paid by just half of all households, compared with some 94 per cent in the UK, for example, and contribute only a small proportion to total government revenues.

As a result, it is no surprise that the need for fiscal rigour and the perception of the French as "taxpayers" is more abstract than in many other countries. Many of those on low incomes pay no tax, while even those with substantial revenues often are exempt after claiming a wide range of deductions.

Mr Jacques Friedman, head of the insurance group Union des Assurances de Paris and a member of the elite French finance inspector corps, became the latest business leader to associate himself with calls for reform, saying on French TV in early June that one of the key modifications to the tax system should be to reduce the highest income tax rate.

His arguments are shared by the de la Martinière committee, which called for the upper rate to be cut from 56.8 per cent to 40 per cent in line with other European financial centres. It also suggested a reduction to six tax bands, and removal of a large number of existing exemptions.

But income tax is only part of the problem. A high proportion of French government revenues come from levies on companies, and notably on the size of the payroll. It is a situation which acts as a disincentive for businesses to hire staff and is paradoxical particularly given the French government's stated pledge to focus on reducing the current very high levels of unemployment.

Separately, the "taxe professionnelle" – levied by a range of different tiers of local government – is calculated on the basis of both payroll charges and capital investment – another formula which acts as a disincentive for the creation and expansion of companies.

As for Mr de la Martinière, he has little illusions about how far his conclusions will be followed. He joked on French radio shortly after his report was published that he expected his recommendations to be "torn to pieces" by lobby groups and politicians in the coming months, and ultimately "thrown to the dogs".

Shopping in St. Germain: taxpayers put survival first Picture Tony Andrews

■ EDUCATION: by Andrew Jack

Power and poverty of the elite

Unemployment dominates a fierce national debate on the direction of state education

The beauty of the French education system is its ability to turn out an elite of extremely impressive and well trained minds. The curse is the dominance of this small group at the expense of the rest, in a legacy that can last for life.

Encounter a top French business executive or civil servant, and compared with many of their counterparts in other countries, their intellectual prowess, analytical rigour and breadth of knowledge – whether on current affairs, philosophy or poetry – is rarely in doubt.

More open to question is whether it is the legacy of their educational background and performance and the continued tight links with their peers rather than their ability to do the job in hand which explains their contemporary position.

Look at the technological and scientific advances of French companies and laboratories – in aviation, telecoms, electronics, defence work or drugs research – and their prowess and achievements are undeniable.

But consider the rigidities elsewhere in the workforce, and the concerns of employers about hiring those who have done less well at school and dropped out before completing any form of higher education, and the story is one of which to be rather less proud.

France is currently undergoing the latest in a regular round of debates and discussion about educational reform – notably at the post-school and university level – against a backdrop more ominous than ever.

Despite President Jacques Chirac's campaign pledges to reduce the "social fracture" in the country, the burden of unemployment – to which the educational debate is tightly linked – remains a heavy weight on the government's shoulders.

The government has made great play of the priority, including references to the employment effects of a number of its initiatives unveiled over the last few months – including aid for small businesses and shopkeepers, and "zones franches" or deprived urban areas which will offer lower social charges and taxes for companies which locate, remain or hire staff in them.

However, such measures appear marginal at a time of economic downturn, privatisation of large state employers and restructuring in the public and private sectors alike.

The most recent unemployment figures for April showed a modest monthly decline of 0.5 per cent – or a rise of 0.3 per cent under the previous method of calculation including people classified as jobless but who worked for more than 78 hours during the month. But the absolute statistics remain high: 3m or 3.3m respectively.

The burden of such gloomy job prospects helped explain the degree of support across France for the strikes at the end of last year. It has been one of the driving themes in discussions between the unions, government and employers since then, including the social summit in December at the conclusion of the industrial action.

Among the most pressing concerns for the government is youth unemployment – which led to a "youth summit" convened at the Matignon, the prime minister's office, in mid-June, one month after his pledge that no young person should leave school without some assistance towards training, employment or career advice.

The other topic most widely discussed is to modify working hours in an effort to increase employment – including longer holidays, earlier retirement and most notably the idea of reducing the length of the working week to 35 or even 32 hours.

Yet so far, little concrete has emerged at the national level, and initial plans to make public a formal agreement in June are slipping.

Unilateral measures launched at the Rhône-Alpes regional council by its president, the defence minister Charles Millon, have so far had little positive effect.

The employers' federation is attempting to steer clear of any new legislation, stressing the importance of flexibility in agreements and the additional costs imposed in reducing the working week.

Nevertheless, there have been some piecemeal developments. Even the banking sector, which publicly complains about the theoretical labour restrictions imposed in a 1937 decree by the socialist Popular Front government, has found ways to negotiate local accords towards more flexible working and reduced hours.

In the field of education, the government's record is more patchy. Mr François Bayrou, the education minister, has come under growing criticism in the last few months for apparent inactivity, or for issuing new plans which strongly resemble others already proposed in the past.

President Chirac's own campaign election pledge last year for a national referendum on education reform appears to have been quietly dropped, and his minister's priorities were temporarily side-tracked by huge discussions in the Spring about the growing outbreak of violence in schools directed at teachers.

Mr Bayrou's most important current challenge remains a reform of the university system, including attempts to redesign the courses, change

Baccalaureat is 'world's most monstrous' exam system

the financing arrangements and reduce the very high drop-out rates.

But he is struggling against a legacy of hugely over-crowded universities, and a fear that has plagued all education ministers in the recent past: the word "sélection", taking away the automatic right of entry into higher education of anyone who has passed the baccalaureat, the school-leaving exam.

France has a long history of taking to the streets to defeat unpopular policies, and no group does so more frequently or with greater effect than university students, who have forced the resignation of previous ministers and abandonment of numerous proposals for reform in the last few years.

If Mr Bayron does manage to bring about meaningful reform, that still leaves him with the dossier of modifying the "bac" itself.

"No country has invented an exam so monstrous," as the French magazine *Le Point* put it recently.

As for the most elite and highly-selective part of France's higher education system, little is likely to change. "The grandes écoles are untouchable," says one senior political adviser to the government.

"They are the only part of the educational system that actually works."

■ **INVESTMENT:** by Andrew Jack

Climate becomes more inviting

France is belatedly competing with the UK for inward investment into the European Union

Nothing is ever straightforward in the complex marriage of politics and business in France. It was Mr Edouard Balladur, the centre-right Gaullist prime minister, who as minister of economics in 1986 introduced the system of domestic "core investors" designed to protect privatised companies from foreign takeovers.

Yet it was the socialist administration – after first nationalising the country's banking and insurance system and many of its leading industrial groups in 1982 – which went on to liberalise France's financial markets and do much to attract foreign money.

It was also Pierre Bérégovoy, the former socialist economics minister and prime minister, who in 1992 created the Invest in France network designed to attract businesses from other countries and give them better help on arrival.

"The image that France is closed to foreign investment is really something from the past," says Mr Raymond-Max Aubert, minister with responsibility for the network and for local and regional development. "Our reception of companies is now among the most flexible that exists."

Some ambivalence still remains. Mr Michel Pébereau, chairman of Banque Nationale de Paris, warned recently of the spectre of a non-French bank taking over one of the country's domestic financial institutions unless they started to improve their own performance and strength.

It was only last year that Mr Alain Madelin, then economics minister, announced the abolition of the legal requirement for all foreign takeovers to be registered with and formally approved by the government. That condition now only remains for the defence sector and businesses involved in other areas of "national interest".

Mr Jean-Daniel Tordjman, ambassador at large, whose own high-profile job created under Bérégovoy was designed to create a focal point for foreign investors, stresses how much things are changing. He highlights the fact that President Jacques Chirac has already made two speeches designed to encourage foreign investment, one in Chicago and one in Singapore. The late President Mitterrand never mentioned the subject.

Mr Jean Arthuis, the current economics and finance minister, has also made the attraction of foreign investment an important priority. He unveiled a series of measures in April including a simplification of the administrative process for receiving work permits for employees of foreign groups coming to France; less red tape for those wanting to open shops; and the appointment of a senior tax officer to work exclusively for foreign businesses.

Other initiatives also demonstrate the shifting attitude towards foreign investors. The two most recent privatisations – of Pechiney and Assurances Générales de France – have been carried out without any "core investor" or formal agreement. Both are theoretically vulnerable to foreign takeover.

Mr Tordjman argues that French companies can learn a great deal from foreign investors – and highlights the false fears about the Japanese in the US, who have helped introduce many management methods to raise productivity.

For Mr Aubert, that is the most important reason for the change in attitude, given France's current high rate of unemployment and the government's focus on its reduction. "We estimate that foreign investment last year created or preserved 20,000 jobs. Over the last few years, it has done this for an annual average of 17,000, an objective we want to double in the next five years." He stresses that France's attractions include the quality of labour, its central geographical position in Europe, and its reputation for research and training – as well as what he calls "a certain quality of life".

Others talk about a new ingredient which could be set to become an increasingly important advantage, notably over the UK: France's commitment to joining the single European currency.

Certainly France has scored some notably recent successes in the intensifying battle to lure foreign investors. Against stiff competition notably from the UK, it won the fight for Motorola's European research centre. Even more recently this year, Federal Express chose it for its main European distribution centre.

Figures published by the Bank of France at the start of June showed that the volume of direct foreign investment in the country stood at FFr60.7bn last year, against FFr60.8bn in 1994, with the largest proportion coming from the US and the UK.

Nevertheless, there is considerable debate about the way in which the French statistics and those from other countries are compiled, which makes any international comparisons fraught with difficulties. Should takeovers of existing domestic groups be counted as the French do? Or profits that are reinvested, as in the UK?

Equally, while France has scored impressive victories in attracting big names which attract the attention of top-level "facilitators" like Mr Tordjman to ease the way, there are questions about how far the same facilities are available to smaller companies, and how much difference its latest measures will really make.

At the second annual conference of Invest in France – held just outside Paris at Euro Disney, another example of the country's ability to attract high profile investment projects – one concern was the difficulty of the French language for foreigners, notably from Asian countries. Another was the high social costs and relatively inflexible employment legislation.

But the most persistent criticism by both investors and local elected officials was of French bureaucracy. "Bureaucracy kills our country," admits Mr Tordjman. "The speed of administrative decisions needs to be increased," he says. "And there are too many, and complex, taxes." The administrative structure of the organisations designed to help foreign investors highlights the problem: Mr Tordjman is paid by the French foreign service, with his expenses and office in the ministry of finance and economics. The Invest in France network is responsible to Datar, the state regional development agency with a traditional emphasis aiding the poorest regions, rather than businesses seeking the best possible location for their needs.

Mr Tordjman says simply: "A few years ago, the British did not take us seriously. That has now changed."

■ **FOREIGN TRADE:** by David Owen

Industry is the export hero

Manufacturing has been the backbone of France's $20bn trade surplus success

Ask Parisians how France can have a $20bn trade surplus when tourists and French manufacturers alike appear convinced the franc is overvalued and you will often get the same pat answer. It is not that France is exporting more, they will tell you, but that it is importing less.

This explanation has the virtue of simplicity, but it is miles wide of the mark: exports reached a record FFr125bn only this March, according to government figures; and imports rose sharply to just under FFr113bn.

In that case, it is often suggested, the world must be drinking a lot of champagne and eating plenty of paté de foie gras. That may be true: France has enjoyed a healthy trade surplus in agricultural and food products throughout the 1990s. But it still does not explain why the overall surplus has been so buoyant lately.

To understand that phenomenon, you need to turn to the so-called professional equipment sector, a catch-all category taking in everything from machine tools to aircraft, computers to ships.

Since starting to generate a surplus in 1992, this sector has quickly become a mainstay of France's impressive trade performance. It has produced a surplus of FFr10bn or more in each of the last seven quarters. In the second quarter of 1995, the surplus reached FFr19.4bn.

Add to that the country's regular surplus (FFr7bn in the first quarter of 1996) in the land transport category – cars and the like – and the conclusion is inescapable: for all France's unmatched reputation in luxury goods and food items, good old-fashioned manufacturing turns out to be at the root of its recent trading success.

Sound and fury: international anger over France's nuclear tests did not seriously damage its foreign trade

While this probably does not qualify as France's best-kept secret, it is little enough appreciated for Mr Yves Galland, the minister responsible for foreign trade, to have referred to an "image problem" in a recent address. France's image, he said, was still too focused on "our classical exports", such as luxury goods, fashion, wine and perfume. "Our exceptional capacity in very many high-tech sectors is still not widely enough appreciated."

Mr Galland made these remarks while announcing that the government had decided to designate eight countries as priority markets for the purposes of foreign trade. The eight are: South Africa, Brazil, China, Korea, India, Indonesia, Mexico and Russia. Efforts will also focus on Japan and the US, the two countries with which France has its largest bilateral trade deficits. Mr Galland said Mr Jacques Chirac, the French president, had set the objective of tripling France's market shares in Asia in the next 10 years.

A glance at the figures for this year's first quarter does much to explain this particular priority: France recorded a FFr2.4bn deficit in its trade with the Asian tigers after six consecutive quarters when a surplus was registered.

Trends in France's trade with Japan were markedly more encouraging, however, with French exports rising 18 per cent. Sales to the US, meanwhile, were ahead by 15 per cent. According to Mr Galland, this first-quarter result showed France was "benefiting from the good health of the US economy and the progressive opening of the Japanese market".

Much the biggest slice of France's foreign trade involves its fellow European Union members, with which it has enjoyed a small surplus since 1993. Though many individual French companies have been hit by the recent slowdown in Germany, this surplus remained close to FFr8bn in the first quarter of 1996, having

> **Car sales produced a big surplus with eastern Europe**

attained a record FFr10bn in the last quarter of 1995.

In a development of potentially major significance, a rapid increase in exports enabled France to record a trade surplus with the countries of eastern Europe in the first quarter of 1996 for the first time in years. Strong automotive sales to Poland were responsible for much of the improvement. The turnaround would have been even more marked were it not for increased French energy imports early in the year as a result of the cold winter. Energy is one of the few sectors where France runs a perennial deficit.

Sales of French goods to Africa were also at a record level of nearly FFr23bn in the first quarter, resulting in a quarterly trade surplus with the region of FFr9.8bn, the highest for a decade. This was largely due to two large exceptional items, however: the export of an oil platform to Congo and of a ship to Liberia.

■ **LUXURY GOODS EXPORTS:** by David Buchan

France retains that certain something

Exports benefit from the tradition of style and good taste established under Louis XIV

"Dear old France, its good cuisine, Folies-Bergère, gay Paris, haute coûture, and ample exports of cognac, champagne, even Bordeaux and Burgundy, it's all finished," Georges Pompidou said in 1972. The future lay with high-tech and industry, he added.

But, a quarter of a century later, the French luxury industry is booming. The 78 member companies of the Colbert Committee – in fashion, perfume, champagnes, cognacs, jewellery, leather – together sell some FFr35bn worth of goods a year, three quarters outside France. The sector has bounced back from the impact of the Gulf war, which emptied the duty free shops of the world, and the backlash of last year's French nuclear tests which led to a less damaging boycott of French goods – even in Japan, Australasia, Germany and Scandinavia – than originally feared in Paris.

The start of the Paris bourse has been LVMH, the sector giant which makes most of its FFr30bn sales out of Vuitton leather goods, Moët champagne, Hennessy cognac and perfumes and clothes from Christian Dior, Guerlain, Givenchy, Kenzo and Christian Lacroix. After its share price rose 25 per cent last year and another 26 per cent so far this year, it now has the biggest market capitalisation (FFr111bn) in the country.

Investors have shown equal appreciation for France's mini luxury conglomerate, Hermès, whose share price has nearly quintupled in the past three years. The originality of Hermès has been to branch out of perfumes and silk scarves into all manner of high quality, traditional products such as shoes, watches and glassware. In the process, it has become a major supporter of French artisanal skills.

It was Jean-Baptiste Colbert, Louis XIV's industry minister, who first set up the French luxury sector out of a mercantilist belief that France should confine exports to products like Gobelins tapestries and St Gobain glass and keep basic goods with a war-making potential out of its neighbours' hands. But the country quickly acquired a taste for luxury that it has never lost.

Mr Christian Blanckaert, the former head of the Colbert Committee and now a senior Hermès executive, claims in a new book, *Les Chemins de Luxe*, that French predominance in the world luxury goods market stems from the fact that it has become completely interwined "between our history, our *art de vivre*, our culture, our temperament and our [luxury] houses".

> **Price and currency shifts affect sales, but quality remains paramount**

It now has considerable snob appeal to growing numbers of people. Mr Blanckaert points out that the super-rich are a surprisingly small market for the French luxury industry which does only 2 per cent of its business in the Middle East, and equally little in Latin America. Some 95 per cent of demand comes from what he calls "the educated middle class" in western Europe, the US and increasingly in Asia. Japan is the second biggest outlet (after France itself) for the Colbert Committee's 78 firms, but the entire Asia/Pacific rim now accounts for one third of exports.

Shopping on the Champs Elysées: 300 years of fashion awareness

Picture: Tony Andrews

Some of France's luxury products, particularly champagne, cognac and decorative items (*l'art de la table*), have recently seemed sensitive to price rises, exchange rate fluctuations and economic downturns. But, by and large, they appear to sell more on quality which, in the view of Mr Blanckaert, is best ensured by companies keeping a strict control of their production and sales networks. Significantly, both LVMH and Hermès have recently been taking over licences and franchises held by their distributors.

At the same time, however, French luxury goods have become a prime target for counterfeiters. According to Mr Blanckaert, France has nearly half the world market in luxury goods, but seven out of every 10 items faked are of French design, and French luxury companies spend 5-7 per cent of their turnover combatting fraud.

A new threat, says Mr Blanckaert, is "the registering of similar or parallel trademarks", in which he claims the south Koreans are expert. He cites such Korean variations on the themes of Chanel as Channel, Chanelle, Chanele, and on the Vuitton mark as Vouiton, Vuiton, Vuitone.

But there is also counterfeiting closer to home. Mr Blanckaert has a particular grudge against Italy, "precisely because it is part of the family". How can France persuade Asians to stop making and selling fake products when it cannot dissuade its own Italian neighbour from doing this?

The prospect of Turkey, a big source of counterfeited textiles, entering the European customs union also strikes fear into the Paris fashion houses.

On a more positive note, Mr Blanckaert detects a considerable fall in counterfeiting in Hong Kong and Thailand, and believes the trend will continue. In 1994 France introduced severe penalties for counterfeiting and got the European Union to introduce tougher anti-faking rules. The new World Trade Organisation has also taken a tougher line on guarding intellectual property.

French luxury houses naturally feel outraged by forgeries which wipe out some of their heavy investment in promoting and advertising their products. At the same time, all luxury goods manufacturers need to ask themselves why so many of their products are so copiable, and to ensure that "the real thing" relies on solid intellectual or artisanal content, not just snob appeal.

■ **ECONOMY:** by David Owen

Over hill and down dale

Trade unions still have the power to accelerate or retard the rate of economic growth

The French economy has had more ups and downs recently than one of the alpine stages in next month's Tour de France bicycle race:

- **from virtual stagnation between April and October 1995 to a 0.4 per cent fall in the final quarter;**
- **from a 1.2 per cent spurt in the first three months of 1996 back, say analysts, to almost zero growth in the quarter just drawing to a close.**

The chief explanation for this volatility lies in the way France's still influential trade unions, and consumers in general, have responded to a range of structural reforms and spending cuts devised by the conservative government to cut the country's extensive public sector down to size.

Both the late 1995 slippage and the alacrity with which the present year started were attributable in part to the wave of public-sector strikes which hit the country last December, bringing substantial swathes of the economy grinding to a halt. For example, the strikes appear to have severely disrupted consumers' Christmas shopping plans, with the result that 1996 began with a burst of buying. Household spending on manufactured goods rose 5.1 per cent in January alone.

While this seems to have been no more than a blip (such spending has fallen three months in a row since then), overall household consumption still rose by 2.4 per cent in the first quarter after falling 0.3 per cent in the final period of 1995.

If one makes allowance for the effect of these strikes in shifting consumption that would normally have occurred in the last part of 1995 into early 1996, a much more regular pattern emerges: French economic growth has been anaemic for more than a year, and there is little conclusive evidence yet that a sustained upturn is in prospect.

Part of the problem is that no alternative economic motor has really emerged to take the strain from external growth. Exports remain impressive, particularly in view of the strength of the French franc and the problems of Germany, France's largest export market. But growth in the trade surplus has inevitably slowed down.

It reached FFr30.66bn in the first quarter, against FFr25.77bn in the corresponding period of 1995 – an increase of 19 per cent. The first-half 1995 surplus of FFr60bn represented a 62 per cent improvement over 1994 levels.

In spite of January's spending spree, most analysts expect consumer expenditure to remain subdued for the foreseeable future, owing to high taxes, concerns about job security and the high rate of unemployment.

Though this has begun to fall in recent months, it remains, at 11.9 per cent, among the highest in the G7 group of industrialised nations. Prime minister Alain Juppé has in recent weeks resorted to the promise of future income tax cuts in an effort to encourage consumers to spend more.

Ms Patricia Lormeau, a Paris-based economist with the French bank Paribas, interprets the steep reduction in stocks, without which first-quarter 1996 growth would have reached an impressive 2 per cent, as a negative sign for consumption, since it suggests companies do not expect the improvement in demand to continue. "Households will continue to be prudent," predicts Mr Oliver Eluère, an economist with Crédit Lyonnais, another French bank.

With a big chunk of the country's industrial base in the throes of restructuring, rarely a week passes nowadays without the announcement of large-scale job losses in one sector or another. Recent examples include Giat Industries, the lossmaking tank and munitions maker, which last month announced a plan to reduce its workforce by 2,700, and France Télécom, which recently reached an agreement with some of its unions that could

Tour de France riders in the Pyrenees: mirror image of the economy

enable it to shed more than 15 per cent of its 150,000 staff over 10 years. In addition, rumours of significant job losses in the civil service have begun to circulate in the wake of a promise by Mr Juppé to trim "excess fat" from the service as part of his economy drive in the 1997 budget.

Meanwhile, the creation of new jobs is restrained in part by the high payroll taxes used to fund France's generous, but costly, welfare system.

All this has led to a groundswell of political support for the idea of spreading available work in France among more people by shortening working hours as a means of creating more jobs. Mr Juppé last month held out the possibility of tax incentives to lure French employers into meeting union demands for such moves. One way and another, unemployment has replaced inflation – which has been rising lately, but remains below 2.5 per cent – as the principal scourge of the French economy.

It goes almost without saying in the present circumstances that the government cannot afford to raise public spending to stoke up growth in the absence of other stimulants.

Ministers have set themselves the target of getting the public sector deficit down to 3 per cent of GDP in 1997 (from 5 per cent in 1995) to qualify for European economic and monetary union. Even if the government adheres to its present plan of holding public spending in 1997 at this year's level of FFr1,552bn, most analysts think this will prove a tall order. If Mr Juppé loosened the purse-strings, what is now a difficult target could start to look impossible.

Many observers argue, indeed, that this preoccupation with the deficit will condemn France to excessively high unemployment and indifferent growth for some time yet. Mr Jean-Jacques Rosa, economics professor at the Paris-based Institut d'Etudes Politiques, says he can see "no reason" why the government's forecast of 2.8 per cent gross domestic product growth in 1997, after 1.3 per cent this year, should be met.

Recent trends in investment, at least, are more positive. Analysts were encouraged by the 3.1 per cent quarter-on-quarter increase in industrial investment in the first three months of this year, although some questioned whether it would continue. According to Ms Lormeau of Paribas, companies have the means to invest but it is far from sure whether they will opt to do so. The May monthly industrial survey conducted by Insee, the French national statistics agency, did not bode well; it suggested the outlook of professional equipment suppliers had taken a turn for the worse, with order books falling.

One development that may facilitate a sustained upturn in investment is the steady downwards drift in interest rates made possible by France's improved standing on international capital markets. This was symbolised in early May when interest rates on long-term French government debt slipped to around the same level as rates payable on comparable German debt. At least one French business leader – Mr Jean-Louis Beffa, chairman and chief executive of Saint-Gobain, the glass, ceramics and insulation group – thinks French companies should be taking advantage of such rates. "Today, you can get low-cost finance", he says. "Companies which are not taking advantage of that for their shareholders are making a mistake."

The precise pattern of French growth in coming quarters may continue to depend to an uncomfortably large degree on the nature of the trade unions' response to the cocktail of privatisations, spending cuts, restructurings and – increasingly probably – tax reductions Mr Juppé unveils. Their unhappiness continues to smoulder, largely in the form of one-day stoppages and action days.

But whether a sustainable upswing materialises may hinge in large measure on how many business leaders and ordinary consumers share Mr Beffa's views on the attractiveness of present interest rates.

■ **PUBLIC UTILITIES:** by David Buchan

Giants feel the squeeze

Telecoms are being broken up but other utilities are more resistant to radical change

Mr Alain Juppé is like a man walking on eggs as he tries to move France's state-owned utilities to a more competitive future without bringing their workforces back on to the streets to protest.

He seems to be getting away with deregulating the French telecoms sector and partially privatising France Télécom without breaking too many eggshells. By contrast, industrial relations remain fragile at Electricité de France (EdF), pending the outcome of European Union negotiations on a new directive to liberalise the energy market.

The government's attempt last autumn to streamline the SNCF rail company produced a messy omelette in the form of a paralysing 24-day national strike. Determined to avoid a repeat, the government is now to give the SNCF massive debt relief without demanding productivity improvements from its workforce; however, rail unions are still unhappy with the more commercial approach that SNCF is being ordered to take.

A common theme to the debate over French public services is pressure for reform from Brussels and other members of the European Union. This pressure is often exaggerated in France and distorted into an erroneous belief that "Europe" is imposing privatisation on France; the Treaty of Rome is neutral between public and private ownership. But there is a free market spirit in much of the Treaty of Rome – of which France can hardly complain since it was the dominant EU country when that treaty was written in 1957 – and the recent trend in Brussels and in other member states has been to try to curtail monopolies.

However much governments in Paris, particularly the centre-right one in power, may privately agree with this trend, they face special difficulties in following it. Overall, French unions are numerically weak, but strong in the public sector and further radicalised by the success of the December strikes. Nor is there much push for change from the French public, which according to all the opinion polls is relatively satisfied with the service it gets from most public service companies.

France Télécom has greatly improved the quality of telephone service in France in recent years, and even without the spur of domestic competition EdF now pays clients compensation if its agents do not keep appointments.

To ease the widespread French fear that even competition, let alone privatisation, would introduce inequalities of service, tariffs and access, France wants to use the intergovernmental conference to write into the EU treaties the right of citizens to universal public services open to all at a reasonable price.

But pressure for liberalisation in telecoms – the most international of services – has proved irresistible. The French parliament is in the throes of passing bills to remove France Télécom's monopoly on business services by July 1 and on ordinary voice telephony by January 1998, to set up an independent body to regulate competition, and to turn France Télécom into a regular company with its own capital, up to 49 per cent of which will be sold to employees and investors.

There have been a series of one-day protests by France Télécom employees, but each was attended by fewer workers than the one before. This is hardly surprising, given that the government has promised to retain majority state control of France Télécom, to maintain it as the provider of a universal telephone service and to continue to give new recruits hired before 2002 the same civil service job rights that current employees enjoy. "The financial markets may not like this, but there it is," commented Mr Michel Bon, the France Télécom president, about the civil service guarantees.

EdF, one might have thought, would have everything to gain from greater liberalisation. It is the world's largest electricity producer with 54 nuclear plants, a big exporter of power (12 per cent of total output) to neighbouring countries which permit imports such as the UK, Italy and Switzerland, and increasingly a direct investor in power generation in remoter markets. To its competitors, EdF therefore looks more like predator than prey.

In fact, France does not mind EdF losing its monopoly on exports and imports, or for that matter, Gaz de France which has virtually no domestic output to protect. But France is adamant that EdF should keep control over the transmission and distribution of electricity for two reasons.

The first relates to a worry that, without overall mastery of the market, EdF will be unable to do the long-term planning and investment which nuclear power requires. If foreign producers are allowed entirely free entry, the fear is that in certain cases they could, with a quick investment in conventional energy or exploiting a momentary drop in fossil fuel prices, render some of EdF's nuclear plants uneconomic, "stranding them like beached whales" in the words of one industry official.

The second factor is more political, stemming from a long-standing commitment by EdF and successive governments to charge individual customers the same price wherever they live. This commitment has some real meaning in one of Europe's more sparsely populated countries, where charging farmers in remote areas the higher real cost of linking them to the EdF grid would be politically unthinkable.

The upshot is that – in negotiations with Germany, its main protagonist on the issue of EU liberalisation – France is ready to allow its largest energy-using companies to bargain with foreign producers for cheaper power, but is insisting that any power imports must pass through a "single buyer" – EdF itself or some government body. A few un-nationalised regional electricity distributors still exist, mainly in eastern France. At present they are totally tied into EdF for supplies. The government is not prepared to let them search abroad for cheaper power, for fear they might actually find it, pass it on to their individual customers and so break the universal tariff.

The SNCF's biggest problem is its crushing FFr206bn debt, and the government has now taken bold action to take over that part of the debt – FFr125bn – which is related to infrastructure and put it into a new state holding company that will assume all future responsibility for building new track. The SNCF and its 180,000 employees is to stay intact, but henceforth purely as a rail operator. Thus, SNCF will pay toll fees to the new state company for use of "its" track, and in turn get paid for maintaining the track.

Competition on rail freight heads for the buffers

The plan goes much further than the 1991 EU directive which merely required railways to separate infrastructure from operating costs for book-keeping purposes. Mr Loïk Le Floch-Prigent, the SNCF president, said the debt relief would halve the company's financial charges, allowing it to aim at an eventual overall profit.

But another proposal for change comes from Brussels. The European Commission last year proposed the opening of rail freight to cross-border competition. Following the French rail strike, the Commission has scaled down its proposal to suggest that only the busiest freight routes might be opened to other EU carriers. But even that proposal may hit the buffers.

KEY FACTS

Area	549,090 sq km
Population	58.4 million (1996 estimate)
Head of state	President Jacques Chirac
Currency	French Franc (FFr)
Average exchange rate	1995 $1=FF4.9915; 12/6/96 $1=FF5.2083

ECONOMY	1995	1996*
Total GDP ($bn)	1,543	1,570
Real GDP growth (%)	2.2	1.0
GDP per capita ($)	26,550	26,840
Components of GDP (%)		
Private Consumption	59.9	
Total investment	18.2	
Government Consumption	19.6	n.a.
Exports	23.5	
Imports	-21.2	
Consumer prices (% pa)	1.7	2.1
Manuf. prod. (% pa)	1.0	0.0
Unemployment (% of lab force)	11.6	11.8
Reserves minus gold ($bn)	26.9	26.5
3-month PIBOR rate (%)	6.6	3.8
FT/S&P index (% change)	+0.5	+15.5
Gen.govt.balance as % of GDP	-5.3	-4.7
Gross public debt as % of GDP	-51.2	n.a.
Current account balance ($bn)	16.9	12.0
Exports ($bn)	285.2	276.0
Imports ($bn)	273.1	266.0
Trade balance ($bn)	12.1	10.0
Trade partners (1995, % value)	Exports	Imports
Germany	17.7	18.5
Italy	9.6	10.0
UK	9.3	8.0
BLEU**	8.5	9.0
Spain	7.3	6.5
US	5.9	7.8

* = Latest figures - EIU estimates for 1996 except Reserves (March), and stock market index (% change from 31/12 95 to 31/5/96). ** = Belgium-Luxembourg Economic Union.

Sources: Economist Intelligence Unit, Datastream, IMF.

■ **DEFENCE POLICY:** by David Buchan

End of the citizens' army

Abolishing conscription – and a revamped arms industry – are the order of the day

As commander-in-chief, Jacques Chirac has given the order for all change in France's armed forces and its defence industry.

By 2002, France will have all-volunteer forces, ending nearly a century of military conscription. These fully-professional forces will be far smaller than today's, but are intended to pack a bigger punch at roughly the same cost. The creation of more compact forces, involving the scaling down or cancellation of some equipment programmes, is to be matched by a government-steered reshaping of France's fragmented armaments sector.

The government plans to oversee the forming of new combines, particularly in aviation and electronics, which from a position of greater strength would be able to negotiate new European industrial partnerships in order to confront renewed competition from the US.

It is an agenda of change that is deeply unsettling to many of France's soldiers, garrison-towns, defence companies and workers, and to its chief ally, Germany, worried about the implications for its own military and industrial ventures with France. But President Chirac feels that defence reform is long-overdue, and appears to be determined to make it one of the hallmarks of his presidential term.

● **The changed threat.** Six years after the fall of the Berlin Wall and consequent defence retrenchments by all its main allies, France recognises it no longer needs mass formations to fight the land war in central Europe that never came. Following its rapprochement with Nato, it is now more prepared to face any residual territorial threat in conjunction with its allies, while giving its large, para-military gendarmerie – the one service to increase in numbers, by 5 per cent to 98,000 by 2002 – a bigger role in ensuring internal security which is increasingly a problem of terrorism or drugs. The main future role of France's regular army, navy, air force will be to project themselves into overseas trouble spots, and more impressively than in 1991 when France, with forces twice the size of the UK's, was only able to send to the Gulf half the contingent that the UK did.

● **The new force structure.** The next six years will see the army shrink by 36 per cent, the navy by 19 per cent, and the air force by 24 per cent, as conscription is phased out. In deference to a feeling – widespread among politicians but not the general public – that national service still constitutes an essential "republican value", the government is proposing to require all 18 year olds, girls as well as boys, to attend a compulsory "civic rendezvous" for about a week.

The only point of this seems to be that it will provide information about the health and aptitude of French youngsters so that, in a real emergency, conscription could be swiftly reintroduced. It would also inform the country's youth about the kinds of voluntary service – the armed services, or humanitarian aid abroad, or social work at home – for which they could volunteer if they felt so minded.

The armed services want France to be able to mobilise a sizeable force of 30,000 troops, with air and sea support, for some foreign crisis spot and sustain them there for a year – and at the same to be able to send a small force of, perhaps, 5,000 troops elsewhere. This "one and a half crisis" strategy reflects France's intention to take the lead, along with the UK, in European crisis intervention or peacekeeping, as well as maintain its defence commitments to former colonies in Africa.

This strategy requires better intelligence-gathering and better military transport. But one of the major flaws in the new Chirac programme is that, while it contains money for new spy satellite programmes, it has almost none to spare for France's share of the Future Large Aircraft (FLA) military transport. As a result, France is campaigning for the Airbus consortium to develop commercially an FLA, which it and other governments would then buy off the shelf.

● **Budget constraints.** The new limit on defence spending for 1997-2002 is to be FFr185bn a year, split between FFr99bn for pay and FFr86bn for equipment, in constant 1995 francs. This increase would allows nominal defence spending to reflect inflation. The FFr86bn for equipment is considerably less than voted in recent years by the parliament, though not much less than that actually spent because of frequent credit freezes by the government.

However, the government has appointed a new defence procurement chief, Mr Jean-Yves Helmer, the former head of Peugeot's car division, and is looking to him to make a 30 per cent cost saving and efficiency improvement in weapon procurement over the next six years. One result may be a substantial reduction in the procurement executive, which at present employs nearly 50,000 people.

● **Equipment.** In addition to scrapping the aged land-based nuclear missiles in southern France, the government has decided not to build a fifth new nuclear missile submarine and is delaying delivery of a third one until 2002. The single most expensive programme, the Rafale jet whose cost of production by Dassault is said to be five times its weight in solid gold, is to be continued, but at a slower rate and the navy is only to get 60 of these machines (instead of 86) to put on its nuclear-powered aircraft carrier, the Charles de Gaulle, still under construction.

The army is to get 406 Leclerc tanks (instead of the 650 it originally planned for), while technical requirements for a new armoured vehicle are being scaled down in the hope it can be made jointly with Germany and perhaps the UK.

Rapid deployment July, 1798: Napoleon at the Battle of the Pyramids

Rapid deployment October 1995: French Foreign Legion in mortar practice at Mt. Igman near Sarajevo Picture AP

French orders for the Franco-German Tiger attack helicopter are to be maintained at 25 over 1997-2002, but the first delivery to the army is to be delayed by two years. It is also likely that over the long term France may halve the overall number of 215 Tigers it had originally intended to buy.

● **Restructuring.** The government has two sets of tasks in mind. The first is to strengthen the weak finances in certain loss-making state-owned companies. Snecma, the aero-engine company, is one of several state enterprises now asking the government for recapitalisation to cover past losses. But the worst case is Giat Industries. Created in 1990 out of various government arsenals making tanks, guns and ammunition, Giat managed to report a net loss of FFr10bn for last year on sales of only FFr5.4bn. Part of the loss was provisions to cover the exchange rate risk on Giat's contract to supply the United Arab Emirates with 436 Leclerc tanks at a fixed dollar price of $3.6bn; far from being Giat's salvation, the enormous UAE contract has thus caused some of Giat's present problems.

Partly because of the Giat precedent, the government seems unlikely to hive off its DCN navy yards into a similar sort of state company. But the

Arms makers will be encouraged to amalgamate

DCN yards, which employ 25,000 people directly and another 5,000 indirectly and constitute Europe's largest ship-building force, pose a serious problem for the government. The DCN has managed to export ships, but not enough to cover the fall in French government orders from FFr20bn in 1990 to FFr14.5bn last year. Its status as a government arsenal also makes it more difficult for it to co-operate with UK and Italian yards with which it is building the new Horizon frigate class.

But this year's main dramas turn on the outcome of two government plans. The first is to merge the state-owned Aérospatiale with Dassault, in which the government has a large stake and even larger leverage but which is headed by Mr Serge Dassault. The latter has been stubbornly resisting seeing his famous family company being swallowed up by the much bigger Aérospatiale, but after some hard bargaining will probably concede in the end.

The other drama concerns the government decision to privatise the Thomson electronics group this year. This has set off a fierce contest between two private groups – Lagardère and Alcatel – for Thomson.

The government's desire to sell Thomson-CSF, the profitable professional/defence electronics division, and Thomson Multimedia, the loss-making and indebted consumer electronics business, as a whole appears to suit Alcatel. Though undergoing deep restructuring which has pushed it into loss, Alcatel is of a size to absorb the whole Thomson group, and Multimedia could find some synergy with Alcatel's telecommunications activities.

By contrast, the smaller Lagardère group has made clear it is only interested in Thomson-CSF, but says it is ready to arrange a buyer for most of Multimedia, except for its digital satellite television decoder business.

Vaunting its defence expertise and relative financial soundness, Lagardère has also said it would bring UK and German companies into any eventual merger of its Matra defence arm with Thomson-CSF, thereby creating instantaneously one of the mega-European defence alliances which Mr Chirac has called for to take on US industry.

■ **FINANCIAL SECTOR:** by Andrew Jack

Financiers feel the heat

Insurance houses and banks appear powerless to master a recurring series of troubles

Nothing could be more symbolic of the current tensions facing the French financial sector than the huge fire which ripped through the headquarters of Crédit Lyonnais, the state-owned bank, on a Sunday morning in early May.

Already struggling under the burden of a FFr135bn restructuring package brokered last year with the government, the bank's executives – and much of the city's population – watched powerless as their historic central Paris office complex was consumed by flames.

While the French media quickly started speculating on whether the bank with its seemingly endless troubles was cursed, the country's insurers were getting to work on the more practical matter of assessing the financial damage of the claim – which could ultimately reach FFr1.5bn – to their own balance sheets.

Plagued by high costs, intense competition and little demand for credit, the country's banks are only barely scraping back towards profitability. For the second year in succession, net banking revenues for the members of the Association of French Banks fell in absolute terms, down to FFr227bn – a trend which had not previously been seen since before the second world war.

Net income crept back up to FFr2bn, after falling to heavy aggregate losses of FFr11bn in 1994, but largely as a result of a substantial decline by 38 per cent in provisions to FFr37bn, as the crippling impact of the property crisis – notably for Parisian offices – and lending against struggling small businesses loans diminished. There has so far been little compensating recovery in demand for credit from either companies or individuals.

Crédit Lyonnais itself scraped back narrowly into profit, but only after intense internal debate. A number of analysts suggest that the bank will again drop heavily back into the red again for 1996, raising the prospect of renewed calls for re-negotiation of its rescue package or a recapitalisation ahead of an eventual privatisation.

In view of the gloomy outlook, it is little surprise that the commercial banks renewed their attack on what they see as the uncompetitive domestic environment: in particular, the existence of mutualist banks, the Post Office and the Caisse d'Epargne savings bank network, with no requirement to provide a return on equity to their "shareholders".

Equally, they accelerated their own efforts to restructure and win business. For example, a significant number signed local agreements with their unions to provide their branches with greater flexibility in opening hours, notably on Saturdays. Most continued gradual programmes of job reductions. At the same time, they have been aggressively marketing new savings and loans packages.

The last few months have seen important shake-ups in the sector. Crédit National acquired the Banque Française de Commerce Extérieur, and Crédit Agricole took over Banque Indosuez from the ailing Suez financial holding company.

In the next few months, there is also likely to be substantial progress towards the sales by the state of Marseillaise de Crédit and CIC, which is owned by GAN, the publicly-controlled insurance group.

Yet so far, there has been little sign of willingness by the banks to indulge in an aggressive cost-cutting process – something which could trigger an explosive political reaction at a time of high unemployment in France, and which helps to deter potential foreign acquirers.

Meanwhile, questions continue to surround the supervision and regulation of the country's banks. Controversy was notably sparked by the financial crisis at the start of the year at Crédit Foncier de

Competition and high costs keep banks under pressure

France, a specialist property bank in which the state holds no shares but appoints the "governor" or chairman.

As the signs of trouble grew worse, it reacted unilaterally by sacking the bank's governor and helping to broker emergency treasury lines. Mr Jérôme Meyssonnier, the new chairman, went on to announce FFr10.8bn in losses, effectively making the group bankrupt. The reasons why the bank ran so far out of control have yet to be explained.

Yet another disaster as Crédit Lyonnais' Paris HQ burns out of control

Not everything is so gloomy. Despite the relatively disappointing sell-off of Pechiney at the end of last year, the government finally resolved early in 1996 to go ahead with the privatisation of Assurances Générales de France, the first insurer to be sold since the ill-fated Union des Assurances de Paris in 1994.

UAP's shares still stand substantially below its offer price – a legacy which hung heavily over those planning the sale of its rival. Yet news of the privatisation of AGF did little to depress the share price ahead of the sale, and the results appear impressive.

The public offer for the shares was more than three times over-subscribed, the institutional placing – including many US funds – more than six times, while the tranche for the group's employees was just about taken up. The exercise exceeded the government's projections, and will provide it with more than FFr8.5bn in funds.

Even so, not all was as rosy as it might at first seem. Mr Antoine Jeancourt-Galignani, AGF's chairman, had a preferred response when quizzed by sceptical investors about the poor performance of previous financial service sector privatisations.

He pointed to a graph showing net asset values at a discount to share prices for the financial sector two years ago – a relationship which has since reversed. In other words, AGF is a bargain because it has been bought at such a low point in the cycle, at a heavy discount to its worth.

That said, many analysts praise the management approach now evident at AGF, and its new emphasis on shareholder value – a philosophy long enshrined by the private sector group AXA, but less evident in a number of its rivals.

Meanwhile, the Federation of French Insurers signed an important agreement in principle at the start of this year with FNSAGA, the organisation representing the country's network of tied insurance agents. The deal will allow substantially more flexibility in the negotiation of contracts between agents and companies.

Spurred by AGF's success, the Caisse Nationale de Prévoyance, a state-owned life assurance group, may also come up for sale over the next few months.

All is certainly not doom and destruction in the French financial sector. But clearing away the ashes and wreckage of the past few years is still far from over.

SWEDISH BANKING

Fresh challenges after crisis ends

The banks are disposing of the last legacy of their trauma. But several factors combine to make the coming years a tough prospect, reports Hugh Carnegy

Shortly after the traditional midsummer celebrations that will be held the length and breadth of Sweden this weekend, the country's banking establishment will have another reason for dancing round the maypole.

From July 1, the blanket guarantee of all Swedish commercial bank commitments issued by the government in late 1992, when the banking system was teetering on the verge of collapse, will finally be withdrawn.

On the same day the Bank Support Authority, set up to steer the banks through the crisis – brought on by a calamitous spate of credit losses – will be disbanded. After disbursing SKr65bn in taxpayers' money to rescue the banks – most of it to take over, clean up and merge the two biggest victims, Nordbanken and Gota Bank – the authority's work is done.

At the same time, the banks themselves are in the process of disposing of the last legacy of the trauma. They are all set by the end of the year to spin off the large property holdings they acquired as a result of foreclosing on billions of kronor in bad loans to the real estate sector which were the principal cause of the credit losses.

"What is happening is extremely satisfying," says Mr Stefan Ingves, deputy governor of the Riksbank (the central bank) and a former chief executive of the Bank Support Authority. "When these steps are taken, in a technical sense the whole banking crisis will be over and the banks can concentrate fully on their future banking business."

That future is not without big challenges. Several factors combine to make the coming years a tough prospect for the banks: a retail banking market showing little growth; a sharp increase in competition within the financial services sector caused by deregulation; the need to master fast-developing technology; and the looming prospect of European monetary union.

But they can at least take comfort that they are facing these challenges in relatively robust shape after the traumas of the loan loss episode.

First, profitability has been restored as levels of loan losses have dwindled. Last year, the top five banks (Svenska Handelsbanken, Sparbanken Sverige, or Swedbank, Skandinaviska Enskilda Banken, Nordbanken and Föreningsbanken) had combined operating profits of SKr18.5bn; a 50 per cent improvement on 1994 and a far cry from the SKr50bn in operating losses suffered by the banking system in 1992.

Loan losses in 1995 among the top five totalled SKr11.3bn – almost half the 1994 level and only a fraction of the SKr73bn lost in 1992. The banks have got the level of their loan losses down in most cases to less than 1 per cent of their total lending portfolio.

Income to equity ratios for the big five ranged in 1995 from a low of 10.3 per cent at SE-Banken, which suffered an unexpected new round of losses related to the early 1990s, to a high of 27.5 per cent at Nordbanken, whose results were still benefiting from the big clear-out of bad assets performed earlier by the state.

The state too, has seen a payback. The flotation of a one-third stake in Nordbanken last year raised SKr6.7bn to add to the SKr3.7bn Nordbanken had already paid in dividends. The government now hopes to recoup at least SKr40bn of the support it gave by means of the further sale of Nordbanken shares and through the unwinding of former Nordbanken assets held by Securum, the state-owned "bad bank" set up to take on the bank's problem loans.

With their balance sheets rebuilt, the banks have moved on to the final task of offloading their property holdings. In the case of SE-Banken, Handelsbanken, Swedbank and Föreningsbanken, these have been put into special real estate companies that are now to be capitalised and spun off to their shareholders via stock exchange flotations.

Diligentia, the SE-Banken vehicle, is the biggest, with a property portfolio of no less than SKr23bn, about half of it outside Sweden. It will be Sweden's biggest real estate company. SE-Banken is spending SKr7bn of its own equity and providing another SKr3bn in subordinated loans to capitalise Diligentia, which is due to be listed on the Stockholm bourse in the second half of the year.

But even after such operations, the banks' equity will be strong. Before the spin-offs, the banks have capital ratios of 15 per cent or more – prompting some to say the Swedish banks had become overcapitalised. After spin-offs they will typically still have capital ratios of about 13 per cent.

Another important strength of the Swedish banks as they emerge from the after-effects of the loan loss affair is their largely efficient cost basis. Ironically, the banking crisis helped achieve this as it forced the banks to reduce staff and branch numbers – and provided a climate in which such reductions faced little trade union opposition.

As a result, Handelsbanken and SE-Banken emerged in first and fourth place respectively in a ranking of European banks by Merrill Lynch gauging the level of expenses to assets in mid-1995. At Handelsbanken, the level was 1.25 per cent, while at SE-Banken it was 1.75 per cent.

"After the banking crisis many people got the impression that the Nordic banking system was really in a mess," says Mr Arne Martensson, Handelsbanken chief executive. "But in Sweden, bank costs are really under control. It was a real estate crisis, not a cost crisis."

The banks will need this advantage to help them meet increasingly tough constraints on profit-making.

The underlying banking business in Sweden is sluggish. Levels of lending declined sharply from 1991 to 1994 and although they have recovered somewhat they still stand well below pre-crisis peaks. The loss of tax breaks on interest payments, a sharp rise in the savings rate and the government's sharp spending cutbacks have all contributed to dampened demand for borrowing.

The banks are finding it increasingly hard to increase net interest income as interest spreads, once so generous for Sweden's banks, have shrunk.

There are more opportunities in servicing the corporate sector and in trading. The banks are all seeking to increase their fee income and have greatly increased their own bond and securities portfolios.

But competition is crowding in, from outside as well as within the traditional banking sector. The banks are anxiously anticipating the advent of European economic and monetary union as a likely harbinger of more foreign competition: already many top European and US banks have operations in Stockholm offering corporate and investment banking services.

Stockholm's main banking district: challenges ahead *Picture: Tony Andrews*

Midsummer dancing: a time for celebration *Picture: Bo Lindell/Pica Pressfoto*

Deregulation has also meant the old distinctions between banking, insurance and savings institutions have broken down to a significant degree.

Insurance companies, mortgage banks – even retailers – have opened so-called niche banks, using telephone systems backed by advanced technology to encroach on the banks' deposit base. The market share of the newcomers is still small – barely 3 per cent of household deposits. But there appears to be a clear trend developing towards services which offer premium interest rates based on streamlined, low-cost service charges – and which challenge the expensive, and extensive, bank branch networks.

But the banks themselves are raiding the traditional bastions of the insurers by marketing a growing range of savings products – in which the bank branch networks are an important selling tool.

The key appears to be developing the technology to minimise costs on routine transfer and payment systems and so devote resources to selling other products. Telephone banking – in which Sweden is one of Europe's leaders – is one route; the banks and other financial institutions are busily experimenting with others, from interactive "video-kiosks" for doing insurance business, to credit-loaded "smart cards" used to replace cash.

"The banks are taking market share in insurance savings products because of our branch networks," says Mr Reinhold Geijer, chief executive of Swedbank. "The idea is not to close them down but to convert them. The big challenge is to get out of cash handling."

Mr Marc Pinto, Nordic analyst at Fitch, the US ratings agency, says the Swedish banks have made strides in this direction. "The Swedish banks are very advanced in non-monetary transactions. That has helped drive down costs," he says.

But however efficient the various financial groups become, many analysts still foresee more rationalisation within the industry in Sweden. The banks have adopted different strategies to secure a growing future. Handelsbanken has embarked on an attempt to become a full-service bank in all Nordic markets. SE-Banken, through its Enskilda Investment banking arm, aims to be the premier Nordic bank for the international corporate sector. Nordbanken and Swedbank are concentrating more on the domestic retail sector.

These last two particularly may look to expand through merger or acquisition. The same pressure is felt by the domestically-oriented insurers and the smaller banks and mortgage institutions. Some significant structural reshuffling within Sweden's financial sector seems highly likely in the near future.

INSIDE THIS SURVEY

Production Editor: Philip Sanders

■ **The economy:** by Hugh Carnegy

Focus switches to growth

A real worry has been created by the marked slow-down in growth this year after 3 per cent growth in 1995

The dominant issue in the Swedish economy since the country emerged two years ago from crippling recession has been the battle to regain control of public finances. Today, victory appears to be in sight – but meanwhile the economy has slowed again, leaving the Social Democratic government struggling against record, double-digit unemployment.

The 1991-93 slump, which saw the economy shrink by some 5 per cent, wreaked havoc in Sweden's big, welfare-dominated public sector.

A double-digit budget deficit rapidly opened up and state debt surged above 80 per cent of gross domestic product as public spending was swelled by escalating unemployment and revenues were hit by recession.

Bringing the public finances back into balance became the urgent priority for the Social Democratic government that was elected in late 1994.

It overshadowed even the rise of unemployment to a peak of 13 per cent, a traumatic experience for a country which in the 1980s had believed it was immune to the European disease of mass joblessness.

Regaining control over the budget took on even greater importance as Sweden joined the European Union in 1995.

The government, faced by a deep split in the SDP and the country over European policy, is taking a cautious approach to Swedish membership of the European monetary union planned to start in 1999.

Even if it is accepted by its partners, Mr Göran Persson, the prime minister, will face an awkward struggle to win broad backing for Swedish membership. But the country faces a permanent premium on interest rates if it does not meet the fiscal and monetary criteria for Emu, whether or not it elects to join.

Some 30 months after taking office, the government has advanced a long way. Under Mr Persson, who stepped up from the finance ministry to become prime minister in March this year, a three-year programme of spending cuts, tax increases and asset sales has been implemented to achieve savings equivalent to nearly 8 per cent of GDP.

It is an unprecedented effort which has meant painful cuts in Sweden's famously-generous welfare system, including reductions in a range of benefits and institutional cutbacks.

As a result, the budget deficit is now forecast to fall from a high of 12.3 per cent of GDP in 1993 to slightly more than 3 per cent in 1997 and disappearing in 1998, while the public debt (under the Maastrict Emu definition) is seen peaking at 82 per cent of GDP in 1996 and declining steadily thereafter.

These developments should bring Sweden within sight of meeting Emu conditions.

The krona has gained sharply in strength, with some private sector economists predicting it will join the exchange rate mechanism of the European Monetary System by the end of this year.

Crucially – not least from the point of view of the country's banks – interest rates have tumbled. The Riksbank's key short-term repo rate was down to 6.30 per cent and the yield on long bonds was under 8.5 per cent at the time of writing. The premium over benchmark German rates has been halved from the spread of more than 400 basis points at the peak of the crisis.

The Riksbank has been able to lower the repo rate 12 times this year because inflation – which the bank feared was a threat as recently as mid-1995 – has flattened out and is set to remain under 2 per cent for 1996 as a whole.

The outlook for the economy is far from being without problems, however. A real worry has been created by the marked slow-down in growth this year after 3 per cent growth in 1995. A slow-down in what had been a powerful export boom and the continued weakness of the domestic economy have led to two successive quarters of negative growth.

Latest forecasts for the full year range as low as zero growth, with the government's own estimate of 1.4 per cent growth is likely to prove over-optimistic.

Almost every institution expects a pick-up late this year or early next year – in line with most forecasts for the European economy as a whole. But forecasts for 1997 at best anticipate 2.3 per cent growth and at worst as little as 1 per cent.

These forecasts are to a large degree factored into the government's calculations for the public finances – which are highly sensitive to the swings in the macro-economy because of the large public sector dependence on the relatively small tax generating private economy.

But the low growth augers extremely badly for employment growth – and persistently high unemployment in turn puts pressure on public spending because of the high benefit levels in Sweden.

Increasingly, the emphasis is swinging from concern about controlling the fiscal deficits to the vital issue of how to generate more sustainable growth in an economy where the public sector still accounts for more than 60 per cent of GDP – the highest of any industrialised economy. Mr Persson has promised to halve unemployment by the end of the century.

At present the total out of work, including those on government-funded training schemes, stands at about 12 per cent of the workforce.

Private sector economists and the conservative opposition are pressing for more radical policies to stimulate private sector growth. They are demanding more flexibility in labour market regulations and lower taxes on capital to encourage more small company growth, especially in the service sector.

But the Social Democrats – and especially the powerful LO blue collar labour organisation – are proving reluctant to go down this path, resisting changes such as the scrapping of first-in, last-out dismissal rules and the emergence of bigger wage differentials.

Mr Persson's approach is angled towards achieving a form of "social contract" binding employers and unions to moderate wage agreements, rather than a big overhaul of established labour market practices.

Key facts

	1995	1996	1997
Demand and output, volumes (%)			
Private consumption	0.3	0.5	1.0
Government consumption	-2.3	-0.5	-0.2
Gross fixed investment	10.6	6.9	2.9
Exports	11.4	3.0	6.0
Imports	8.7	2.5	4.5
Gross domestic product	3.0	1.1	1.9
Key economic indicators			
Unemployment (%)	7.7	7.5	7.3
Industrial production (%)	10.5	-2.0	1.0
Consumer prices (%) average	2.9	1.8	2.0
Consumer prices (%) December	2.6	1.9	2.1
Trade balance, SKr bn	106.1	111	130
Current account, SKr bn	33	38	51
Current account, % of GDP	2.0	2.2	2.9
Central government borrowing, SKr bn	139	86	40
Public sector financial balance, % of GDP	-8.1	-4.2	-3.0
Public sector gross debt, % of GDP	79.3	80.4	79.4

Financial forecasts	Current	Sep 96	Dec 96	Mar 97	Sep 97
3-month interest rates	6.34	5.60	5.50	5.70	6.00
10-year bond yield	8.58	8.15	8.85	9.00	8.40
$/SKr	6.82	6.75	6.89	6.82	6.53
DM/SKr	4.49	4.40	4.40	4.50	4.40

Source: SE-Banken

■ **Restructuring after the credit-loss crisis:** by Hugh Carnegy

Banks wrestle with changes

Swedes are increasingly looking for high-yielding savings products rather than leaving their money in bank deposits

"Where do the banks go from here?" is perhaps a more pertinent question in Sweden in 1996 than in most European countries.

The loan loss crisis of the early 1990s may now be largely a bad memory, but the banks are still wrestling with the difficult structural challenges thrown up in the post-crisis era. Much has already changed in the shape of the Swedish banking sector but more changes are likely as the banks face up to the low growth and rising competition that characterises their home market.

Several important rationalisation moves were made as a direct result of the credit loss crisis. Biggest of all was the merger by the state of Nordbanken and Gota Bank, the two greatest victims of the trauma, whose losses were so great that the state was forced to take them over and perform a wholesale laundering of their balance sheets. Together, they swallowed the lion's share of the SKr65bn which the crisis cost the Swedish taxpayer.

Nordbanken (the Gota name has disappeared) is now restored to profits. Its 1995 operating profit of SKr5.1bn was the highest of any Swedish bank and the process of its intended complete re-privatisation has begun with the sale last year of a 34.5 per cent stake in the bank.

The early 1990s also saw the reorganisation of the highly fragmented – and loss-burdened – Swedish savings banks which were brought under one roof in a new commercial bank called Sparbanken Sverige – or Swedbank. Swedbank has also moved firmly into the black and although it is still controlled by a group of savings bank foundations, was floated on the Stockholm bourse in early 1995.

Sweden's five largest commercial banks now rank as follows: Svenska Handelsbanken, with total assets at the end of 1995 of SKr476bn; Swedbank (SKr467bn); Skandinaviska Enskilda Banken (SKr439bn); Nordbanken (SKr339bn); and Föreningsbanken (Skr106bn).

This year, all but Nordbanken – which had the vast majority of its bad loans extracted by the state – are engaged in one of the last important structural processes left over from the loan loss convulsion. They are spinning off the property subsidiaries they were forced to set up as they called in the security on thousands of their bad loans – most of which were to the real estate business.

These subsidiaries are now important property companies in their own right and are set to transform the Swedish real estate market as they are floated by their bank owners onto the bourse. The biggest is Diligentia, held by SE-Banken, which holds properties worth no less than SKr23bn.

It will be easily Sweden's largest real estate company when it is spun off to the bank's shareholders in the second half of the year.

Swedbank has already spun off in similar fashion its unit, called Tornet, with property holdings worth more than SKr9bn. Handelsbanken's Näckebro has real estate worth SKr8.4bn.

The cost to the banks of these spin-offs is considerable. SE-Banken is pumping in SKr7bn of its own equity and SKr3bn in subordinated loans to capitalise Diligentia, reducing its own Tier One capital ratio from 9.8 per cent to 6.9 per cent. Even Handelsbanken – the least badly damaged by the loan loss debacle – is spending Skr3bn, or more than 11 per cent of its equity, to float Näckebro.

But once these operations are complete, the picture will be clearer for the banks to address their structural priorities in the post-crisis world. The equation which emerges suggests strongly to many analysts that another round of rationalisation is likely, in the form of mergers or takeovers.

"We believe the pressures stemming from a sustained low-growth macro environment and increasing competition are pushing the financial sector towards more consolidation," Merrill Lynch advised its clients in a note earlier this year.

A flat domestic economy and a continued reluctance of Swedes to borrow to fuel spending has depressed the underlying interest earnings outlook for the banks. Although they are saving strongly, Swedes are increasingly looking for high-yielding savings products rather than leaving their money in bank deposits.

"If you look at 1995, eight of the 10 largest universal banks in the Nordic area saw profits before loan losses fall," says Mr Arne Mortensson, chief executive of Handelsbanken. "The general outlook is that it is difficult to increase revenues in the banking business in Sweden just now."

The scope for achieving profits growth through cost-cutting is meanwhile limited because of the relatively high efficiency of Swedish banks. In the past few years, they have cut staff numbers sharply – in Nordbanken's case by 20 per cent. Handelsbanken heads the European expenses-to-assets league with a ratio of well under 1.5 per cent. SE-Banken is close behind with less than 2 per cent. The banks must therefore look elsewhere for growth potential. Handelsbanken has forged its own path by moving decisively into Finland and Norway, where it has bought up local outlets in pursuit of its ambition to be a full-service, pan-Nordic bank. SE-Banken also has international ambitions, although is much more tightly focused on the corporate- and investment-banking operations of its Enskilda unit.

> **Moves towards merger or takeover could be in the offing**

Nordbanken and Swedbanken, meanwhile, are firmly focused on the domestic retail and small- to medium-sized corporate markets. They are, in the words of one US ratings agency analyst, "really butting heads".

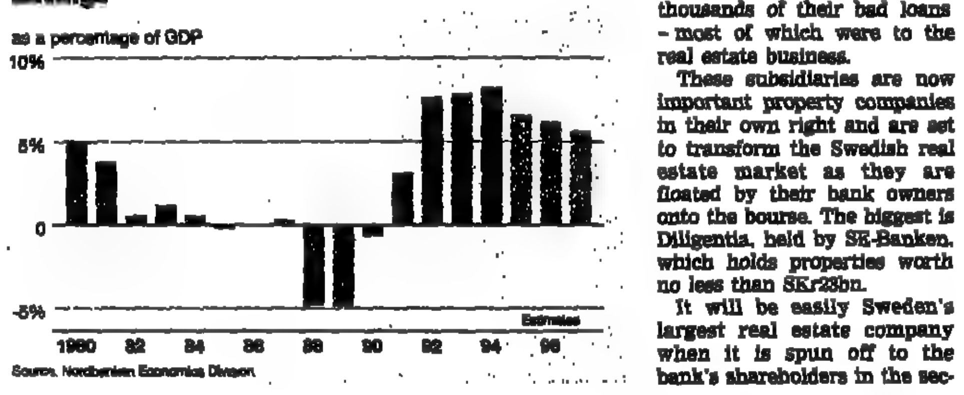
But to gain a decisive advantage over their competitors, strategic moves towards merger or takeover could well be in the offing. Not many expect a "mega-merger" of the type which saw the creation of Merita Bank in Finland, when that country's two biggest banks joined forces. But other moves could be on the cards.

Both Föreningsbanken, the smallest of the big five banks, and Stadshypotek, the recently de-mutualised mortgage house, are the main objects of speculation. Swedbank and Nordbanken are often seen as the likely respective suitors.

Swedbank already has the market-leading mortgage institution in the shape of Spintab, but could strengthen its position in other markets through a link with Föreningsbanken. Nordbanken, meanwhile, could well be attracted to Stadshypotek, which would help it mount a much stronger mortgage challenge to its chief rival, Swedbank.

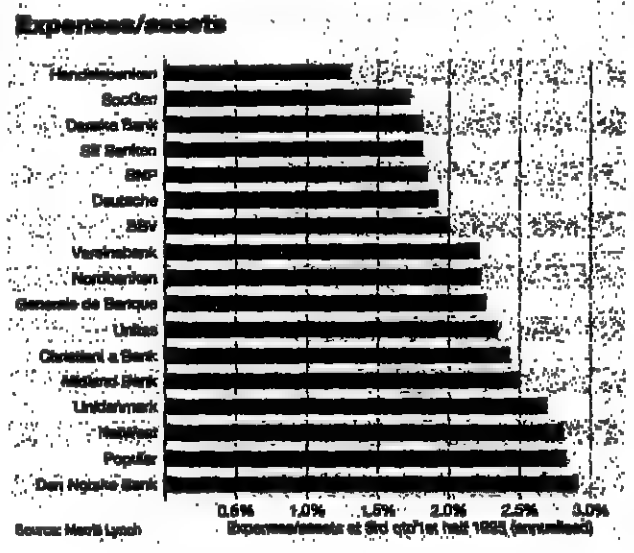
These are but two of the potential scenarios being canvassed at present. Others could well emerge as 1996 progresses.

Savings



Source: Nordbanken Economics Division

Expenses/assets



Source: Merrill Lynch

PROFILE **Securum**

The doubts have subsided

Few companies can have started life in such inauspicious circumstances as Securum. Created in 1992 as a repository for SKr67bn in non-performing loans from Nordbanken – the hardest hit of the commercial banks in Sweden's worst banking crisis – Securum earned the dubious distinction of becoming the country's first "bad bank".

The portents looked even bleaker when it sank to a SKr12.9bn loss in its first six months. The figures intensified fears about the difficulties of unravelling a hotchpotch of problem credits which included a sheaf of properties in far-flung locations and stakes in a diverse array of Swedish industrial operations.

Three years on, the doubts have subsided. A combination of prudent asset management, judicious sales and low interest rates has put Securum well ahead of its brief to realise the value of all its holdings within 15 years. Indeed, Mr Jan Kvarnström, Securum president, expects to wind down its administration to a small core by the middle of 1997. The Swedish state, which pumped in SKr24bn of capital when Securum was founded, had envisaged the equity being written off by the end of the 15 years. Now, however, the company expects to return about SKr11bn to the taxpayer.

"That is a very different outcome from delivering zero in 15 years, which was the initial target," says Mr Kvarnström. He attributes the success to Securum's practice of resisting fire sales and its habit of taking an active management role in the businesses it controls. By filling key management positions with its own appointees and closely monitoring performance, he believes Securum has "created value" throughout its portfolio.

While the concept of building "work-out" companies to handle sour credits is not new, Mr Kvarnströ believes this hands-on approach to asset recovery is unique.

"The French and the Japanese have experienced recent banking crises and I'm a bit surprised they have not been more interested in studying our set-up," he says wryly.

Securum's assets are concentrated in three principal areas: shareholdings in industrial companies, constituting about 35 per cent of assets; Swedish real estate, representing 28 per cent; and international properties, with 19 per cent. The bulk of the international property estate portfolio is in the UK and the disposals programme has been completed. Mr Kvarnström suggests Securum will claw back the entire £200m equity injection made by the Swedish government at the outset.

Across Securum, the disposals process has quickened rapidly this year. Assets totalling about SKr9bn were sold in the first four months, against SKr18bn in three years up to 1996. Among them were a 5 per cent stake in Akzo Nobel, the Swedish-Dutch chemicals group; a 20.6 per cent stake in Esselte, the office equipment supplier; and Addum, an industrial development company. Securum retains a SKr40bn assets stockpile, including a 13.2 per cent stake in Akzo and a wholly-owned Swedish real estate subsidiary, Castellum, which owns about 900 properties.

In December, Sweden's state Bank Support Authority, set up in 1992 to oversee the rescue of the banking system, merged Securum with Retriva, the "bad bank" set up to unwind sour loans of SKr43bn taken out of Gota Bank. The deal prompted the restructuring of Castellum and Kungsleden, Retriva's main property arm. The former was reshaped into a pure portfolio property company and the other focused on real estate sales, a change that Mr Kvarnström says brought significant synergy effects.

The long-term aim is for Castellum to be spun off, possibly via a stock exchange listing, and for Kungsleden to be gradually wound down. But Mr Kvarnström stresses this is some way off. Both companies are likely to form part of the residual undivested operations when Securum's administration shrinks from its current 105 people to about 20 next year. The company, offers little detail on how its "post-Securum" holdings will be managed, and by whom.

Despite the widespread praise that has greeted Securum's progress, doubts persist about the long-term future of some of the less attractive segments of Securum's portfolio. Mr Björn Westberg, a former Securum executive and now head of investor relations at Nordbanken, says: "Yes, they can sell 90 per cent of the assets but the problem is what is left. What happens to the 10 per cent that are left over?"

Mr Kvarnström insists that "niches" will be found for the holdings. For him, the important factor is to hand over the company in good financial shape.

To that end, he expects Securum to be debt-free this year, having paid off a SKr10bn internationally syndicated refinancing loan, of which SKr4bn is still outstanding. Its Swedish property holdings are on a stable footing and the state stands to recoup about 45 per cent of its outlay.

In the words of one senior Securum executive, it is an achievement no one thought remotely possible a few years ago.

Greg McIvor

PROFILE Nordbanken

Important symbol of recovery

If the recovery at Nordbanken continues to progress smoothly, it can only be a matter of time before the government decides to press the privatisation button again. Last autumn, it successfully sold a 34.5 per cent stake in Nordbanken to domestic and international investors, raising SKr6.7bn in the first stage of a strategy to return 100 per cent of the bank to the private sector.

It was an important symbol of a broader recovery in the Swedish financial system because Nordbanken was the biggest victim of Sweden's banking crisis and would have collapsed under a huge burden of bad loans in 1992 without a state bail-out.

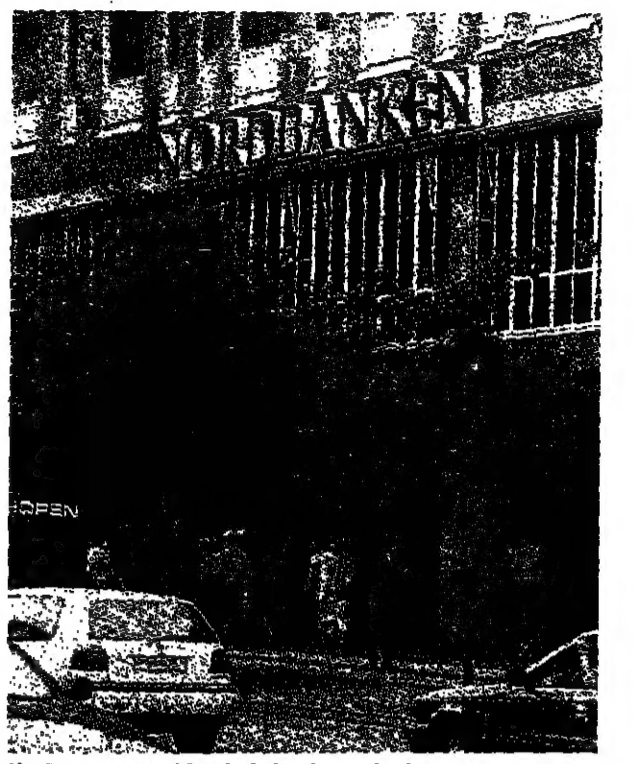
Since the partial privatisation, the bank's financial performance has continued to improve while its shares, underpinned by a healthy yield, have soared above SKr125 from a sale price (to institutions) of SKr92. Swedish individuals, who bought shares for a discounted SKr85 have done even better.

The state has built further Nordbanken privatisation proceeds into its budget plans, but has yet to set a timetable for the sale of its remaining 65.5 per cent holding. Given that this stake is today worth SKr17bn, most analysts believe it is more likely to be sold in two tranches than one. A strong possibility is that the next stage will be launched on the back of the bank's half-year figures, due in late August, although much will depend on the direction of Swedish interest rates at the time.

It would be too glib to say that Nordbanken has progressed from basket case to showcase, but it has certainly achieved a turnaround that few would have thought possible three years ago.

This owes much to a general upturn in the Swedish banking and corporate sector that has seen credit losses fall to more normal levels, as well as to vigorous cost-cutting. But there is no doubt that the rebound would not have been as quick or as spectacular without extensive state support along the way – in particular the setting up of "bad bank" Securum.

Nordbanken today is one of Sweden's four largest banks, with a customer base comprising 3.7m private individuals, 140,000 small and medium-sized companies and more than 30,000 organisations. Its market shares have been bolstered by its 1993 merger with Gota Bank, the other main casualty of the Swedish banking crisis.


Nordbanken: one of Sweden's four largest banks Picture: Tony Andrews

Nordbanken says it intends to keep a tight focus on the Swedish market and it rules out expansion even into neighbouring markets such as Norway and Finland, where two of its rivals, Skandinaviska Enskilda Banken and Svenska Handelsbanken, are becoming more active.

A key aim is to do more business with the customers it already has, rather than grow its client base dramatically. Two areas where it believes it has scope for growth are fund management and mortgages. It also aims very specifically to be the "best bank for small and medium-sized customers."

One area to which the bank has given a great deal of attention is its distribution base. On top of 300 Nordbanken branches, it has a collaboration with the Swedish post office, which has a further 1,300 outlets, and a fast-growing telephone banking system which boasts 220,000 customers.

Nordbanken believes its collaboration with Sweden Post gives it plenty to go for because more than 75 per cent of the 500,000 people a day who use the post office are not Nordbanken customers.

The bank says a recent renegotiation of its post office agreement will provide increased benefits because it will pay lower transaction costs and have additional opportunities to market its products under the "Postbanken" name.

Like its fellow Swedish banks, Nordbanken has had to endure tough market conditions, characterised by fierce competition, narrow margins and weak loan demand. Yet despite these difficulties, few would quibble with the quality of its 1995 figures. Operating profits were up 23 per cent at SKr5.9bn. Credit losses were down 42 per cent to SKr1.27bn, or just 0.5 per cent of lending. It was a long way from the dark days of 1992 when the bank suffered credit losses of SKr19.3bn, or 7 per cent of lending. Return on equity was 23.7 per cent.

The performance enabled the bank to pay SKr1.6bn in dividends, or 38 per cent of net profits, in line with its commitment to pay a dividend of between 30 and 50 per cent of profits to avoid an excessive build-up of capital. There are still those who would argue that the bank is overcapitalised – with a year-end capital adequacy ratio of 14.4 per cent – but international credit rating agencies continue to view it cautiously following its problems earlier in the decade.

Progress continued in the first quarter of this year, with operating profits rising 30 per cent to SKr1.56bn. The figures were helped by a further reduction in loan losses and lower costs, although the scope for substantial further improvements in both categories is now decreasing. That is why the bank was particularly encouraged by evidence of increased corporate borrowing after a long period of subdued demand.

If this trend is shown to have continued in the second quarter, it will make it all the more tempting for the government to proceed with the next stage of the privatisation.

Christopher Brown-Humes

■ **Niche banks:** by Hugh Carnegy

Low cost base is the key

Many Swedes have responded with enthusiasm to the promise of high returns offered by the new operators

Like the profusion of mushrooms which sprout in Swedish forests during the autumn, a crop of new "niche" banks has sprung up in the country in the past 18 months.

Fertilised by deregulation, which has allowed all kinds of institutions to gain a banking licence, and the opportunities presented by new technology, a number of insurance companies and retailers have opened specialist banking services aimed both at exploiting their own existing customer bases and at raiding the clients of the traditional commercial banks.

The new banking operators include the three insurers, Skandia, Trygg-Hansa and Wasa, the recently de-mutualised mortgage institution Stadshypotek and the Swedish-based worldwide furniture retailer Ikea, which has started a niche bank called Ikanobank.

Typically, these operators have set up shop combining premium interest rates on deposits with specialised credit and payment services tailored to their own core businesses – such as mortgage loans and insurance-based savings policies.

The key to their operations is their low cost base achieved by working via the telephone and confining their services to electronic transactions, thus keeping staff and fixed costs to a minimum.

Apparently undeterred – perhaps even encouraged – by conducting bank business over the telephone, many Swedes have responded with enthusiasm to the promise of high returns offered by the new participants. Deposit interest rates at the telephone banks are still as much as 2.5 percentage points higher than those offered by the traditional banks, depending on the class and size of saving.

By April this year, the new operators had taken about a 3 per cent share of the SKr405bn market for household deposits in Sweden. The established banks have tended to downplay the impact of the newcomers, arguing that the market share of the niche banks as a proportion of the total retail banking market is very small and already shows some signs of planing out.

But the old banks have responded by themselves opening in-house telephone banks offering premium deposit interest rates in an attempt to blunt the new competition.

The newcomers, meanwhile, argue that they are pioneering the future of retail private banking services. According to Datamonitor, Sweden now has the highest telephone penetration in Europe after Finland, with 11 per cent of all banking customers using telephone services.

The biggest of the new banks is Skandia Banken, started 18 months ago by Skandia, the country's leading insurance group. It now offers a wide range of services from the core savings accounts, through car finance, mortgage loans and asset management to automatic premium payments schemes for Skandia's insurance policy holders.

"They call us a niche bank, but we are only a niche bank in the sense that we don't do corporate banking. We do almost everything for the private client," says Mr Göran Lenkel, chief executive.

Skandia Banken has grown to 90,000 customers, a total that exceeds its original target for the first three years of operations. Half its clients are existing Skandia policy holders, the rest it has attracted from elsewhere.

Swedish niche banks - market share April 1996

		Market total	Skandia Banken	Wasa Banken	Trygg-Banken	Stadshypotek	Ikanobanken
Lending to households*	SKr	170 bn	2.6 bn	288 m	47 m	–	527 m
	%	100	1.52	0.17	0.03	–	0.31
Household deposits	SKr	405	4.5	1.8 bn	553 m	1.9 bn	739 m
	%	100	1.12	0.46	0.14	0.48	0.18

* excluding mortgages
Source: Statistics Department

According to Datamonitor, 11 per cent of all Sweden's banking customers use telephone services

The bank employs a total of 210 employees to service these customers. Its deposits totalled SKr5bn by April, while lending had reached more than SKr3bn. Virtually all business is conducted over the telephone – and 70 per cent of calls are handled on a self-service basis. In other words, customers calling in complete their inquiry or transaction using the telephone's touch-tone facilities.

"We aim to get this proportion up to 85 per cent," says Mr Lenkel. "The customers are willing to do it because they know it is the reason they get a better deal from us."

Exploiting electronic technology is vital to the low-cost advantage of the niche bank operators. Skandia Banken will later this year introduce interactive services for customers using their home PCs – linked via modems to the bank's own computer network.

The banks are also studying the potential for servicing clients via the Internet; Ostgota Bank, the smallest of the universal banks, has already pioneered an Internet service.

The new banks do not all share the same strategies, however. Skandia Banken, for example, is an additional service within the Skandia group, rather than an integrated part of the whole.

Mr Lenkel describes it as "an island" which can defend, exploit and expand Skandia's customer base – but which will not be used as a tool to lock customers into Skandia by cross-subsidisation between insurance and banking services.

By contrast, Trygg-Banken, the bank opened six months ago by Trygg-Hansa, is designed as a hub within the group which will be a vital link in Trygg's development of a full range of financial services.

Trygg-Banken offers full payments services – traditionally a loss-making side of banking – with the intention of becoming a "one stop shop" for customers, serving everything from salary and household payments to savings and insurance products.

Mr Yngve Andersson, head of Trygg-Banken, acknowledges this is initially expensive, but says the pay-off will come through inducing customer loyalty. "The costs of taking full-service customers on board is five times the cost of deposit-only customers. But we feel these customers will not leave us. Loyalty will be high. We are building for the future," says Mr Andersson.

Whatever the differences in approach, the niche operators have one thing in common. They believe their "distance" – or "do-it-yourself" – banking system, with simplified, technology-based services and conditions, is the way of the future. If they are right, they surely foreshadow further painful restructuring for the traditional, local branch-based retail banks.

PROFILE Stadshypotek

Ownership issue is significant

No one is quite sure whether Stadshypotek AB, Sweden's largest mortgage bank with a 30 per cent share of the domestic market, really is a state-controlled bank – but the government assumes that it is and announced on June 11 that it plans to sell the 34 per cent of the banks's shares which it believes its owns in order to help fill a hole in the budget.

"The Swedish credit market is on the threshold of major structural changes," wrote Mr Lars Wohlin, managing director until his retirement in May, in the 1995 annual report, a prescient remark in the light of recent developments.

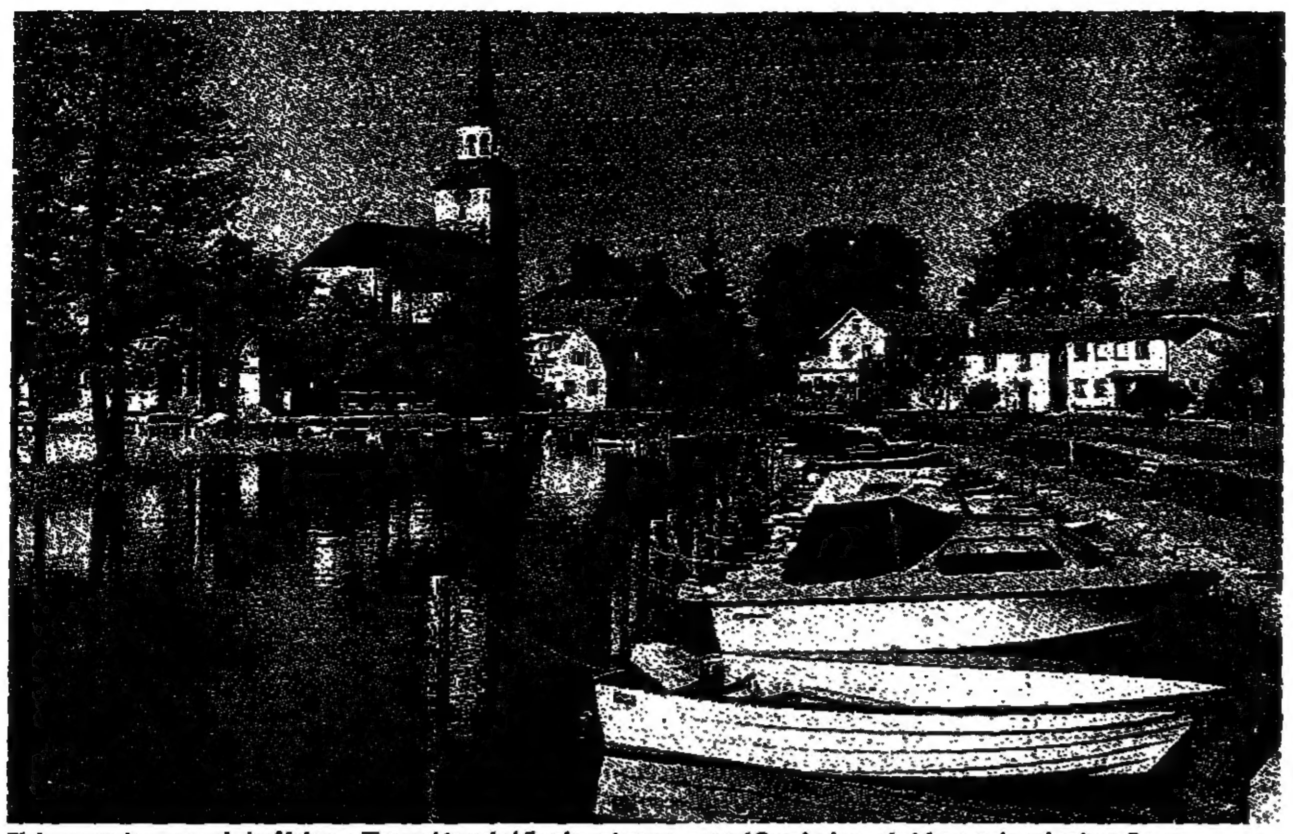
Stadshypotek, which became a public company in 1993 and obtained a stock exchange listing in 1994, is a sizeable institution. It has assets of Skr318bn; a capital base of Skr21.4bn and equity capital of Skr17.6bn; a core capital ratio of 10.9 per cent; and the Skr3.06bn pre-tax profit in 1995 gave a return on equity of 13.3 per cent.

How the ownership of Stadshypotek is finally settled, therefore, is a matter of some significance for the future of the Swedish banking structure.

Mr Hans Dahlgren, Nordbanken's chief executive, has made it no secret that he has an acquisitive eye on the mortgage bank. If he were to get his way, it would create a bank which would loom very large indeed on the domestic scene. But there are many other possible solutions and the government has given no indication of how it will dispose of the shares it believes it owns, or to whom.

If it seems odd that there should be any doubt about who owns Stadshypotek, the explanation lies in the peculiarly Swedish character of the institution from which the bank in its present guise has emerged.

It was founded in 1909 as an association of borrowers, a "mortgage mutual". Until 1993, when it was converted into a public company, it consisted of 20 regional associations, responsible for lending, and a central unit,



Picturesque homes on Lake Melaren. The end to subsidised mortgages caused Sweden's market for new housing to collapse Picture: PSP

Konungriget Sveriges Stadshypotekskassa (Urban Mortgage Bank – UBM), responsible for funding by bond issue. But although it was a self-owning association of borrowers for its first 84 years, it became, so to speak, the government's poodle.

Firstly, in 1909, it gained certain tax privileges, a fact which in 1993 led the government to argue that it had a right to claim ownership of half (at that point) of the equity, with the borrowers entitled to the rest.

Secondly, in the regulated post-war banking world it was, as Mr Christer Bergquist, deputy managing director, put it, "not so much a loan-generating as a loan service company." Mortgage loans were subsidised. The commercial banks automatically referred customers to the mortgage associations. The insurance companies were legally obliged to buy the mortgage bonds sold by UBM and its colleagues.

Stadshypotek had a 40 per cent share of this market which, however, was radically changed when the government stopped subsidising loans in the early 1990s. Stadshypotek had to change equally radically. It was converted into a public company in 1993, when UBM became sole shareholder. In 1994, UBM issued half the existing equity to the borrowers and then made a new share issue and obtained a stock exchange listing. Ownership was spread. The outcome was to leave UBM with 34 per cent and foreigners currently own about 17 per cent.

> The commercial banks no longer send customers to Stadshypotek

Mr Bergquist says that the government's statement on June 11 that it intended to sell UBM's shares and to use the proceeds to shore up the budget was the first time that a government had actually said: "This money is ours." It remains to be seen whether borrowers will emerge to challenge the government's assumption in the courts.

In the meantime, Stadshypotek has become a competitor in a highly competitive market. The commercial banks no longer send customers over to Stadshypotek. They have their own mortgage finance subsidiaries, which are exploiting their extensive branch networks to win new business.

Mr Bergquist says that the Stadshypotek thinks it has done well to maintain such a substantial market share against fierce competition. He attributes its success to the mortgage bank's cost efficiency. Nevertheless, Stadshypotek is shrinking.

The end to subsidised mortgages caused the market for new housing to collapse. In 1992 and 1993 only about 5,000 new houses or apartments were built a year and although the figure rose to about 12,000 in 1995, this is far below what Mr Bergquist regards as normal – about 40,000 a year.

At the moment, therefore, mortgage repayments exceed new lending. Stadshypotek's loan portfolio has shrunk by about Skr25bn to Skr296bn over the past two years. But after two years in the red in 1992 and 1993, when the collapse of the housing market and the finance industry crisis caused loan losses to soar, Stadshypotek made a comfortable profit in 1995 – and a first-quarter operating profit this year of Skr732m points to another satisfactory year in 1996.

Hilary Barnes

PROFILE Enskilda

A prominent role

Are regional merchant banks inevitably going to struggle in a world increasingly dominated by big US and European investment houses with capital strength and global reach?

If the answer is yes, you might think Enskilda, the international merchant banking arm of Skandinaviska Enskilda Banken, to be a prime merger candidate in the wave of consolidation sweeping through the industry. If no, you could point to the company's considerable strengths as an argument that it can continue to operate both profitably and independently.

Ask Mr Jacob Wallenberg, Enskilda's chief operating officer, how he sees the situation and he chooses his words carefully: "We don't have to go with someone else. It's not a foregone conclusion, but it's not totally excluded," he says.

Should it come to a tie-up, Enskilda can at least talk from a stronger position than it had three or four years ago. Then, not only was the parent bank burdened by huge bad loans that brought it within a whisker of a state bail-out, but the big international merchant banking houses, such as Goldman Sachs, Merrill Lynch and Morgan Stanley, started to seek business aggressively in the Nordic countries.

Operating in this more competitive environment has forced Enskilda to sharpen up its act and market itself more aggressively. This has brought a recovery in its fortunes, and it is now meeting a target of producing a return on equity of more than 15 per cent.

Enskilda says its advantages include a strong regional base, long-term client relationships, healthy market shares and high rankings in a wide number of different areas. For example, it is number 14 worldwide in foreign exchange and number three in European cash management. In mergers and acquisitions advice, it dominates the Swedish domestic market, and was ranked number 10 in Europe last year.

These achievements make Enskilda the leading Nordic-based international investment bank. Outside the Nordic region, its office network spans London, New York, Paris, Frankfurt, Tokyo, Hong Kong and Singapore. London, with 400 staff, is by far the most important of the non-Nordic offices, and is seen by Mr Wallenberg as "a funnel of know-how and ingenuity into the Nordic region."

Amplifying the global coverage, the bank has an alliance with Blackstone in the US, covering advisory services in North American-Nordic mergers and acquisitions.

If Enskilda did not have this reach, it is arguable whether it would have had such a prominent role in the recent initial public offering of Scania, the Swedish truck group. In one of the most prestigious offerings to come out of Sweden in many years, Enskilda was appointed joint global co-ordinator alongside SBC Warburg and Morgan Stanley. Had there been doubts about its placing power outside the Nordic region, it might have had a more limited role.

"Two years ago it would not have been a foregone conclusion that Enskilda would have been a global co-ordinator of the Scania offering," says Mr Peter O'Kane, director of Enskilda Securities in London. He says the mandate shows the group is marketing itself more successfully to issuers, and getting the message across that it has a good distribution base to international institutions.

Other big deals in which the group has been involved include last year's merger of Pharmacia and Upjohn, the drugs groups, and the purchase of part of the research and development activities of the UK group Fisons by Astra, the fast-growing Swedish pharmaceuticals group.

Inevitably, Enskilda is accused of acquiring a lot of its business simply because of the historical links between the bank and the Wallenberg family, Europe's pre-eminent industrial dynasty.

But Jacob Wallenberg (son of Peter Wallenberg, the current patriarch of the empire) says: "This is one of the biggest fallacies around. Our problem is that we have to work harder to get Wallenberg business than to get other clients." He says the bank has a lower market share of deals involving Wallenberg companies than other Swedish companies.

Mr Wallenberg says he is most proud of the fact that the group's research team is now ranked second in the Nordic region (after Alfred Berg). This is because it was hit by a large number of research-team defections a few years ago. But he emphasises that the group cannot be all things to all people. It has deliberately avoided involvement in some areas, such as Eurobonds.

The bank has clearly indicated its wider Nordic ambitions by setting up sizeable offices in Oslo and Helsinki in the past two years. In its first year, it gained 8 per cent of equities trading in Helsinki and it is number one in fixed income.

In the longer term, Mr Wallenberg believes the group's home base could evolve to "Baltic" from "Nordic" as markets develop in the Baltic states, northern Russia and eastern Europe. He also believes the group has significant opportunities in south-east Asia, where many of its corporate clients are active. The ambition, says Mr Wallenberg, is to be "significantly larger in a Nordic context and significantly stronger in certain selective products outside the Nordic region." That also means the bank will reduce its emphasis in some areas, although it is not saying yet what they will be.

Christopher Brown-Humes

■ **The insurance sector:** by Hugh Carnegy

Period of transformation

There is an atmosphere of almost frantic activity as various participants seek to position themselves for the future

For Sweden's insurers – like the country's banks – the 1990s have proved to be a difficult, sometimes traumatic period.

As recently as last year, the two biggest groups, Skandia and Trygg-Hansa, were both still in the throes of overcoming structural problems caused by loss-making ventures into the US.

Meanwhile, at home, the insurance sector is facing a challenging and fast-changing operating environment. Deregulation and new conditions in savings markets have opened up enticing growth opportunities, particularly in the life business.

"The whole market is in a state of rapid transformation with new products being created, rules for insurance companies changing and a new national pension scheme being introduced," commented Goldman Sachs in a review of the sector earlier this year.

Among the changes:

- The allowance of unit-linked insurance;
- Liberalisation of banking laws to allow insurers to open their own deposit-taking banking operations;
- Cuts in Sweden's hitherto all-embracing welfare system which have boosted demand for private pension and other long-term savings products;
- The state pension, or ATP, system is due to be reformed next year in a way likely to result in a role for the private sector in ATP fund management;
- Next year, legislation is set to allow traditional life assurance operations to be run as for-profit operations.

Hospital care for the elderly: cuts in the welfare system have boosted demand for insurance Picture: Pica Pressfoto

These changes have blurred the lines between the traditional banking and insurance sectors – opening up the insurers to competition from the banks no less than the insurers now have the chance to compete directly in banking services previously barred to them.

Insurers also have to bear in mind the potential threat of newcomers from abroad – especially with the looming advent of European monetary union, which is likely to render all kinds of financial services more transparent.

The result is an atmosphere of almost frantic activity as various participants seek to position themselves for the future. The insurance companies have been busily remodelling to ensure they have the right structure to cope with the challenges facing them.

The biggest Swedish group – with premium income of SKr52bn and operating profits of SKr550m last year – is Skandia.

Björn Wolrath: echoed the frustrations of many in the sector

Skandia only finally put behind it an expensive foray into reinsurance in the US when it wrote off SKr2bn in 1995 to complete the sale of its US reinsurance vehicle SARC.

But Skandia remains the only Swedish insurer with significant international operations; 75 per cent of its business is outside Sweden. It considers the Nordic region – not just Sweden – as its home market, with life and non-life operations in Norway, Denmark and Finland. Its AFS life and savings unit has business spread around the world, including in the US and the UK, with unit-linked and life premium income of more that SKr23bn in 1995.

By contrast, Trygg-Hansa has become almost completely Sweden-oriented since it retreated last year from a highly costly venture into the US market through Home Holdings – a venture since hived off to Zurich Insurance.

But Trygg has been busily restructuring to meet the future, de-mutualising its life business and merging the life and non-life operations into one streamlined organisation. Likewise Wasa – having seen off a takeover attempt by Trygg this year – has arranged the buy-out of its life policy holders by its non-life organisation to achieve a similar unified structure.

For all the insurers, the fundamental feature of their sector today is the contrast between the profitable, but mature non-life operations and the fast-developing life and savings operations where the real growth potential lies.

The former, in which the mutuals Länsförsäkringar and Folksam are the main players alongside Skandia, Trygg and Wasa, accounts for total annual premiums of SKr33bn, split about 60-40 commercial-personal.

The life and pension insurance sector has total premiums of some SKr55bn a year and is expanding rapidly. Mr Björn Wolrath, chief executive of Skandia, echoed the frustrations of many in the sector over the uncertainty over tax and other rules governing new savings products.

"Instead of long-term, stable rules, each year we are handed down new changes to the web of rules and regulations and this is having an adverse impact," Mr Wolrath complained.

But still, growth is evident. Some estimates suggest the anticipated ATP changes will add SKr15bn to the private occupational pension business. Foreign endowment insurance doubled in 1994 to an estimated premium value of SKr10bn.

The insurance companies – and their bank competitors – are constantly looking for new products in areas such as pensions, health insurance and income replacement insurance to fill the gaps increasingly subject to the effects of budget-driven cuts in the government welfare programme.

One of Skandia's latest ideas is called "competence" insurance. In the age of high unemployment and low job security, the idea of "competence" insurance is to build up savings to be deployed to cover retraining costs for workers to enhance their job skills.

PROFILE Trygg-Hansa

Rushing to re-model itself

Mr Lars Thunell, chief executive of Trygg-Hansa, must have created some kind of speed record for a failed takeover bid when he attempted to swallow rival insurer Wasa early last month.

On Tuesday May 7, he launched a two-pronged move on Wasa by proposing a SKr1.5bn bid to buy in Wasa's non-life policy holders, while offering a merger with Wasa's life assurance operations. The deal would have created a group with more than 30 per cent market share in Sweden – compared with Trygg's 20 per cent – and a real challenger to Skandia market leadership.

Wasa executives reacted with indignation to the Trygg bid, which they dismissed as an opportunist grab which was, in reality, worth less than one third of the price offered. Representatives of Wasa policyholders agreed and on Thursday May 9 voted unanimously to reject the Trygg offer, which duly fell.

If there was a note of irritated impatience in Mr Thunell's abortive bid for Wasa, it stemmed from Trygg's anxiety to catch up ground lost during a series of disastrous investments in the first half of the 1990s. Under Mr Thunell, who was appointed in late 1994, the group has been rushing to re-model itself to meet the increasing competition in the financial sector.

Trygg's trail of woes began with ill-fated forays into banking and credit insurance in Sweden just before the credit-loss crisis of the early 1990s. It took control of Gota AB, parent of Gota Bank, and Svenska Kredit only to see them collapse in 1992 under the weight of loan losses. And in 1991 it bought into Home Holdings, one of the biggest property and casualty insurance companies in the US, only to see Home fall into heavy losses. These investments cost the company accumulated losses of SKr11bn.

Mr Thunell was well suited to clear up the resulting debris: his previous job was as head of Securum, the "bad bank" set up by the government to unwind the bad loans of Nordbanken.

Within weeks of taking over at Trygg he arranged a deal to exit from Home by handing it off to Zurich Insurance. Then he set about rebuilding Trygg out of the ruins of its failed ambitions.

"The company basically lost half of its equity through these problems and didn't really earn anything during the period," he says. "But throughout, the basic core Swedish insurance business was profitable. So after sorting out the problems we looked at what we were good at, to focus on our strengths, and the core was the Swedish business."

In the 18 months that has passed since the deal on Home with Zurich was struck, Trygg has recovered its poise. In 1995, the group swung from a SKr3.66bn operating loss in 1994 to a profit of SKr2.75bn. Premium income declined from SKr7.2bn to SKr6.6bn, but this was partly because it ceased writing new reinsurance business. Underwriting losses fell from SKr1.3bn to SKr550m.

Boosted by this improvement in performance – and in balance sheet strength – Mr Thunell moved to restructure Trygg's complex organisation by merging the Trygg-Hansa Life operations, hitherto a mutual company, into the Trygg-Hansa parent through a SKr1.15bn takeover of the former by the latter.

The purpose was to simplify the organisation, gain "literally billions of kronor" in lower administrative costs and allow Trygg to take maximum advantage of deregulation which has opened up new savings markets on the life side of the business. "It means we are one company – one organisation – and it means we can position ourselves for the future," says Mr Thunell. "Life is where we are going to have growth. The non-life sector is mature and is not going to grow very much."

Thunell: set about rebuilding Trygg from the ruins of its failed ambitions

Trygg's intention is to be a "one-stop shop" for financial services. Its advertising slogans proclaim it to be the "supermarket of life". It is also experimenting with technology-driven sales outlets such as the Internet and interactive video kiosks. A key part of its new services is Trygg-Banken which, unlike other newly-opened "niche" banks offers payments services as well as savings products.

Mr Thunell's agenda is ambitious. But he knows the competitive pressures are such that organic growth alone will not ensure Trygg's future. Hence his unsuccessful grab for Wasa.

"These days, you have three choices," he says. "To link up with another Nordic insurer, or with a Swedish bank or become, eventually, a branch of one of the big international insurers."

Clearly, his intentions lie in the first option. The move on Wasa may have failed, but it is unlikely to be the last strategic effort by Mr Thunell.

Hugh Carnegy

■ **Capital markets:** by Hugh Carnegy

Two dynamic exchanges

Since 1992 the share of foreign ownership in the market capitalisation of the stock exchange has jumped from 12 per cent to 30 per cent

In the Stockholm bourse and the OM Stockholm options and derivatives market, Sweden has two of Europe's most dynamic exchanges.

Both are run as for-profit, publicly-listed operations, and both are leaning heavily on technology to secure an expanding niche in today's highly international and increasingly deregulated capital markets. They run electronic trading – neither any longer has a trading floor – and have extended their reach beyond Sweden in the bid for growth.

In future, their fates may well be even more entwined than they are today. OM Group, founded by Mr Olof Stenhammar, one of Sweden's leading entrepreneurs, is the biggest shareholder in the Stock Exchange with a 21 per cent stake. Both organisations speculate that in time co-operation between them is likely to deepen.

The Stockholm Stock Exchange, still based in the quaint old wood-panelled bourse in the Old City opposite the Royal Palace, has undergone sweeping changes in the 1990s. Apart from its own shift to quoted status and its move to electronic trading, the biggest transformation prompted by deregulation has been a surge of foreign investment in Swedish equities.

Since 1992 – the last year of any restrictions on foreign investment – the share of foreign ownership in the market capitalisation of the stock exchange has jumped from 12 per cent to 30 per cent. In the same period, market capitalisation has more than doubled to SKr1,180bn at the end of last year. Several leading Swedish companies are now more than half-owned by foreign investors.

The arrival of the foreigners has been a big factor in the explosion in volumes from an average at the start of the decade of SKr500m a day to SKr4bn today – more than one third is accounted for by overseas investors. "In the last three years, foreign investors have pumped SKr100bn into Swedish stocks," says Mr Carl Johan Högbom, the exchange's products and trading chief. "In the same time we have had a total of SKr90bn in new issues – so you can see how we depend on foreigners now."

But the exchange has not been content simply to watch the foreign money flow in. At the same time, competition from foreign exchanges has grown as Swedish companies have increasingly sought listings abroad. About 20 Swedish companies are listed on the London Stock Exchange Automated Quotation System and almost 10 on Nasdaq in New York. This year, Scania, the truckmaker, and Astra, the pharmaceuticals group, became the first Swedish companies with full listings on the New York Stock Exchange.

The bourse's response to this has been to take advantage of changing legislation in Europe to move overseas in search of custom. In the past year it has admitted 11 "remote" members in London, Denmark, Norway, Finland and Switzerland, allowing them to trade on the exchange from their offices in their respective countries. These members already account for about 10 per cent of turnover on the exchange.

"I know some European exchanges think remote trading is a threat, but we think it is an opportunity," says Mr Högbom. "Some of our existing members were not keen either, thinking they would lose business. But the remote members have brought in new investors and new business and most now accept that the overall cake has grown."

Like the stock exchange, OM also has a firmly international footing. The group is made up of much more than just the Stockholm options exchange: it includes the sister OMLX exchange in London and is also the world's leading supplier of electronic trading systems to other exchanges around the world.

But the exchanges have been driving forces in the OM story. Their network is still expanding as OM Stockholm now has links with the Oslo bourse, the Finnish options exchange and is operating the Norwegian-Swedish and Finnish electricity exchanges, which have opened following deregulation of energy markets in the Nordic region.

The average number of contracts traded per day on the OM exchanges rose to 176,000 in the first three months of this year – a 30 per cent rise over the same period last year. OMLX accounts for about 10 per cent of the turnover.

Mr Per Larsson, who this year took over as chief executive from Mr Stenhammar, says the strategy is to be the main marketplace for trade in Nordic instruments – with OMLX acting, like the stock exchange remote members, as the conduit for international investors to the Nordic markets rather than as direct competition to, for example, the Liffe exchange in London.

But Mr Larsson does envisage spreading the scope of instruments traded. "We use the term universal marketplace," he says. "That means we think that in future there will be no such thing as specific exchanges for different types of instruments."

In Sweden he sees an advantage in this respect. "We have a regulatory regime where we can do all financial services under one authority – unlike in the US where you have different authorities supervising different markets."

But the vision of the "universal market place" raises the question of the relationship between OM and the Stockholm stock exchange. "OM is potentially our most dangerous competitor," declares Mr Högbom. "They could start trading in equities tomorrow. But then, so could we start trading futures and derivatives."

Equally, the two operations could move towards merger. But neither side sees this happening in a hurry. "Possibly certain operational parts of the exchanges could merge," says Mr Larsson. "But we are a long way from a merger of the overall operations."

Stockholm Stock Exchange: sweeping changes — Picture: Svenska Dagbladet

Stockholm Stock Exchange - key ratios

	1991	1992	1993	1994	1995
Share turnover SKr (bn)	131	172	339	559	585
Volume of shares traded (m)	1,163	2,148	4,944	6,650	5,981
Market capitalisation (SKr bn) *	556	582	892	977	1,180
Number of companies quoted *	230	206	205	228	223
Other exchange trading (SKr bn) **	8	17	23	43	41
Stock Exchange revenues (SKr bn)	155	148	158	176	182
Average Number of employees	72	67	67	55	59

* at December 31 1995 ** Excluding institutional trading — Source: Stock Exchange

Olof Stenhammar: one of Sweden's leading entrepreneurs

■ **Preparing for Emu:** by Hugh Carnegy

Position is far from clear

The planning takes into account two scenarios: One, that Emu will go ahead with Sweden included, the other that Emu will go ahead, but initially without Sweden

"Even for an institution with roots that date back to 1668, this is a big event," laughed Mr Stefan Ingves, deputy governor of the Riksbank – the world's oldest central bank.

The event he was referring to was the advent of European monetary union. Uncertainty may still surround the project, from the technical issue of which countries will qualify to enter, to the political issue of which countries will want to enter. But the Riksbank and Sweden's commercial banks, like their counterparts elsewhere in Europe, are assuming for planning purposes at least that Emu will begin on schedule in 1999.

Sweden's own position on Emu is far from clear. First, it is by no means certain that Sweden will be accepted as having met the necessary criteria by the qualification date of 1997. Secondly, there are strong domestic political doubts.

The Social Democratic government has declared that the Riksdag will take the final decision on Swedish membership. Mr Göran Persson, the prime minister, is in favour of joining. But there is strong opposition within parliament, the SDP and in the country at large. With a general election due in late 1998, Mr Persson may find it easier to postpone the issue until after the election – in other words, delay Swedish entry until a projected second round of Emu admission early in the next century.

A complication could also arise over the likely need for a change in the constitution. The complex rules surrounding a change in the constitution offer Emu's opponents a greater chance of putting the issue to a referendum. They only need to muster a one-third blocking vote in the Riksdag against a proposed constitutional change to force a national vote on the issue. Given the narrow margin by which Sweden voted to join the European Union in 1994 and the deep split that vote caused in SDP ranks, Mr Persson will try everything to avoid a referendum – including, quite possibly, postponing the whole issue.

However, the Riksbank and the commercial banks have privately made the firm judgment that at least a core of countries will launch Emu at the appointed date – and they must be prepared.

Although it is largely independent of the government, in line with Emu demands, some features need to be changed in the Riksbank's structures. The bank is under the authority of parliament – not the ministry of finance. But it has members of parliament on its board – which may not be permissible under the Emu regime. Legislation will also be required to isolate the governor of the bank from the threat of dismissal by the government.

The Riksbank and the commercial banks are meanwhile stepping up preparations on a range of matters from planning a new payments system to cope with the advent of the Euro to the banks' internal strategies for dealing with the new competitive pressures Emu is likely to bring.

"Discussions are going on as in all other European countries," says Mr Ingves. "In certain respects, the whole process is a little easier in smaller economies like Sweden because we have reached a high level of computerisation and we do not have so many institutions."

Göran Persson: he may postpone the issue until after the election

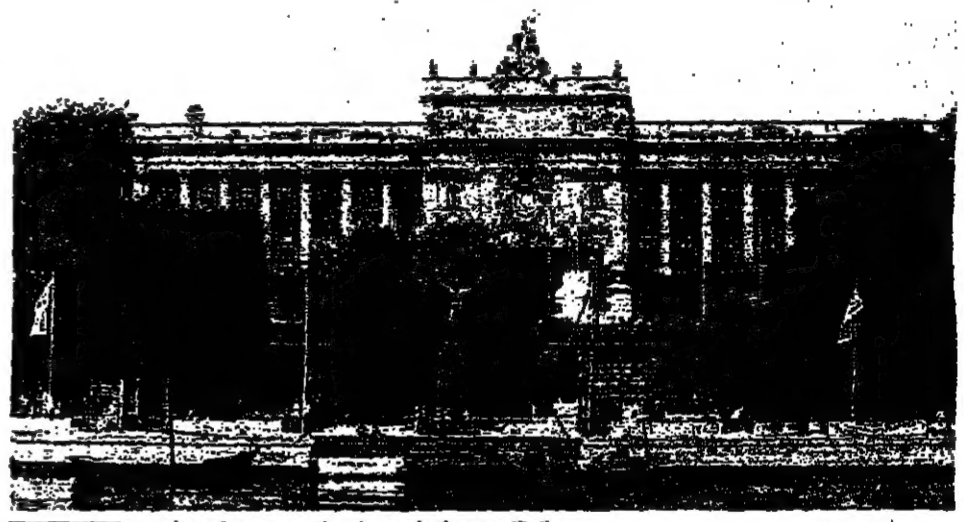
The commercial banks estimate that the process could cost up to SKr1bn each, with about 50 per cent of the cost accounted for by developing new software systems, 20 per cent by staff training and the rest by hardware costs. The banking association has set up a steering group to co-ordinate work on building a common payments system and other technical and legal aspects of Emu. "Preparing for Emu is like taking out fire insurance," says Mr Per Jederfors, the executive in overall charge of Emu planning at Skandinaviska Enskilda Banken. "We have to do it now, even if we do not know exactly what is going to happen. It will be too late to do anything after the fire starts burning."

The planning has to take into account two scenarios: One, that Emu will go ahead with Sweden included, the other that Emu will go ahead, but initially without Sweden.

If Sweden stays out initially, the need to change, for example, automatic teller machines and other payments infrastructure will be postponed. For the banks' own trading operations, the effect on foreign currency trading would be less than if Sweden is in because they would still trade krona and many cross-trades – for example, third currencies against the dollar – would be replaced by trading the Euro instead. The bigger challenge comes once Sweden joins. For example, the base for foreign currency trading will narrow, eroding the local advantages Swedish banks have with their expertise not just in trading the krona, but in the other Nordic currencies.

Mr Jederfors says increased competition generally will be the biggest challenge for the Swedish banks once Sweden is in Emu. With a single currency, the transparency of financial services will increase greatly. Regulatory barriers in Europe to cross-border banking have already fallen. With a single currency, other, less visible, cultural barriers are likely to fall, extending competition from foreign players not just to corporate clients but also to retail services.

This, in turn, may increase the likelihood of restructuring within the industry. "By definition, all European banks are going to be smaller as a result of Emu," says Mr Jederfors. "Today, we measure our performance against the Nordic market. Soon every bank will measure itself against the Emu market. This seems likely to lead to structural changes."



The Riksdag: complex rules surround a change in the constitution — Picture: Tony Andrews

■ **The supervisory regime:** by Hilary Barnes

Learning from the crisis

Supervision has shifted from being institution-oriented to being function-oriented

"Worried? I am always worried – but I am not terrified," was how Mr Claes Norgren, director-general of the Swedish Financial Supervisory Authority, cheerfully defined his present state of mind.

He became director-general in 1993, when the calamity which overtook the Swedish financial markets had already culminated and which is by now, he says, "past history." It is history, however, from which there has been learning.

"When I came to this position I saw my job as to take stock, look at what happened, draw conclusions and adapt the organisation." Much has been done since. Although Mr Norgren does not express it in so many words, it is clear that the supervisors went into decline in the 1980s. On-site inspection had virtually ceased.

"Policy was that on-site inspection was meaningless. It was all so complex that you couldn't understand it anyway," says Mr Norgren. There was also a lack of attention to risk management "which was quite logical when inflation paid all the debts."

The culture of inflation had also infected the banks themselves, where the attitude was: "Why care about loan losses when inflation would take care of the problem," according to Mr Norgren. In fact, because the financial markets underwent an enormous development as the markets were deregulated in the 1980s, there was a clear need for a focus on risk management.

One of the lessons of the banking crisis, says Mr Norgren, was "that there were too many spots in the Swedish markets, and especially at some banks, where risk controls were weak and below standard."

Restoring on-site inspection has been an important part of Mr Norgren's programme. He sees it as having at least two useful effects. It is good for market discipline, working in the same way as the sight of a policeman by the roadside has a good effect on traffic discipline. And it gives the supervisors a feeling for what is happening in the financial markets.

But importance has been attached to ensuring that the inspectors know what they are doing and will not succumb to the feeling that it is all so complicated that it is beyond them. The Supervisory Authority's latest annual report says that supervision has shifted from being institution-oriented to being function-oriented.

Inspection teams have been formed consisting of individuals who specialise in the types of risk that arise in the activities conducted by each type of institution.

As part of a programme to develop and improve the methodology on inspections, new guidelines have been prepared and last year a supervision handbook was issued, providing guidelines and check lists for inspections, and explaining how an inspection should be planned, performed and processed.

The main objective of the inspections is to ensure that the internal control and risk management procedures of the individual banks and other institutions – Sweden's supervisors cover the whole gamut of financial service institutions – are in order. If the quality of controls is regarded as unsatisfactory, the supervisors discuss the issue with the management and may request that specific improvements are made.

Mr Norgren sees new challenges arising

Broadly speaking, however, the supervisors have found that internal control and board involvement are relatively good. Mr Norgren says: "We are rather pleased. We feel that we have achieved some of the ambitions which we set in 1993-1994."

While the economic situation, and with it the financial services industry, has stabilised, Mr Norgren sees new challenges constantly arising for the supervisors, especially with regard to new financial instruments. Sweden has had "bad cases, but not cases bad enough to destabilise the system", he says.

A case in point concerned swap arrangements made by Skandinaviska Enskilda Banken to limit the damage done by losses incurred by a Luxembourg-based property subsidiary, Luxonen, last year. The supervisors insisted that the swaps were valued in a way which took market values into account.

The action made a damaging dent in the recovery in early 1995 when the bank was struggling back into profitability after several years of severe losses, although in Mr Norgren's view the Luxonen case "was a credibility thing for the bank rather than a thing which could upset the bank itself."

Meanwhile, Mr Norgren surveys a scene which has changed radically in the course of a few years. "New banks are opening. There's much more competition. It is all magnificent – good for the consumer – but there will be a tomorrow.

"I think there is probably an excess supply of financial services in relation to what people demand, and this is a worry, although not from a stabilisation point of view. But there will be closures of enterprises that are not profitable and it is important to see that there is a soft landing," he said.

■ **Servicing the national debt:** by Hugh Carnegy

Lender sentiment shifted

A sense of having weathered the storm is palpable among Riksgälds Kontoret officials. Now they are able to concentrate more on smoothing out the debt profile

At times over the past two years, the task of funding Sweden's public debt – until recently one of the fastest-growing in the western world – was an unenviable one as the lending markets began to wonder aloud whether the country could cope and interest rates ratcheted ever upwards.

But towards the end of last year, things changed. "Suddenly we felt like bees flying in a field of many blossoms," recalls Mr Thomas Franzen, director-general of Riksgälds Kontoret, the national debt office, with a poetic flourish.

What made the difference was a shift in sentiment among lenders who became persuaded that the Social Democratic government's tough fiscal medicine was finally bringing the yawning budget deficit under control – and a healthy flush of growth in the economy, which expanded by 3 per cent in 1995.

The turning point came not a moment too soon. Sweden's central government borrowing requirement zoomed to almost SKr200bn in 1994, comfortably more than 10 per cent of gross domestic product. It approached SKr150bn in 1995.

As Sweden's crisis coincided with worldwide turbulence in bond markets, the country's association with the volatile "high yielders" was doubly potent. "A lot of investors withdrew from the Swedish market," says Mr Franzen. Interest rates climbed to giddy levels, with long bond yields at one point in early 1995 showing a spread of more than 400 points over benchmark German rates.

Mr Franzen says his office was helped over the crisis by two factors: a surge of buying of Swedish paper by Japanese institutions and the local retail market, where Swedes were saving heavily after a borrowing binge in the 1980s. And when western institutional investors came back onto the market in the second half of 1995, re-emboldened by the fiscal and macro-economic outlook, Sweden's borrowing needs had begun to diminish significantly. As Mr Franzen suggests, there was suddenly plenty of sources available for funding. Latest estimates by the Riksgälds Kontoret see the borrowing requirement in 1996 dropping by SKr15bn compared to earlier estimates, to a SKr50bn-SKr60bn range, thanks to the rigour of the government's budget savings programme and higher-than-forecast tax revenues. The total outstanding central government debt at the end of April stood at SKr1,370bn – back on a downward path.

Of this year's borrowing total, the debt office plans to borrow SKr20bn in foreign currency. Gross foreign currency borrowing this year will reach Skr75bn – of which SKr55bn has already been completed. The portion of the total debt held in foreign currency has declined slightly from more than 30 per cent to 29 per cent.

On the bond front, the changing situation has also shown considerable benefits. For a start, yields have tumbled. At the time of writing, the yield on 10-year treasury bonds stood at just under 8.5 per cent, compared with more than 11 per cent a year ago. The spread against German bonds is down to 200 basis points and Mr Franzen says that this remains too big.

The change in climate has allowed the debt office to show its muscle in another way, however. It is placing an increasing amount of debt through index-linked bonds – something of a breakthrough for Sweden which in the 1970s and 1980s was one of Europe's most inflation-addicted nations. Index-linked bonds, first introduced in 1994, accounted for SKr2bn of the SKr9bn bond issues in April. The debt office has five different index-linked instruments outstanding. The latest is a 24-year bond paying an annual coupon of 4 per cent.

A sense of having weathered the storm is palpable among Riksgälds Kontoret officials. Now they are able to concentrate more on smoothing out the debt profile, which contains a steep maturity peak at the end of the century. Bonds worth some SKr130bn will mature in 1998, with heavy commitments recurring through 2005. The debt office is working on switching a chunk of these commitments into new, longer, instruments – including index-linked bonds.